



STATEMENT OF ACCOUNTS

(Draft subject to final audit opinion and certification)

2017/18

Hammersmith & Fulham Council

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Independent auditor's report to the members of the London Borough of Hammersmith and Fulham

Audit certificate to follow with final version of the 2017/18 accounts.

CERTIFICATION BY CHAIR OF THE AUDIT PENSIONS AND STANDARDS COMMITTEE

I confirm that these accounts were approved by the Audit, Pensions and Standards Committee on 17 July 2018

Councillor Iain Cassidy
17 July 2018

THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE'S NARRATIVE REPORT

Introduction from the Strategic Director of Finance and Governance – Hitesh Jolapara

Hammersmith and Fulham is a dynamic, diverse and exciting place to live and work. Sitting alongside four and half miles of the River Thames and nestled between Europe's busiest airport, the City of London and London's West End, the Borough is a significant centre for business, the arts, culture and leisure. We are one of London's leading councils and our aim is to be the best.

Hammersmith and Fulham, like most local authorities, continues to face significant financial challenges. The Government's austerity agenda has triggered unprecedented cuts while at the same time demand for our services has increased. During this time the importance of finance has only been reinforced as we look for ever more efficient ways to make diminishing resources go further.

The 2017/18 Statement of Accounts presented here tells the story of what has been a financially successful, albeit challenging, year for the Council. At the beginning of the year – through our budget process - we found savings and efficiencies of £15.4m, while at the year-end we have remained within budget, supported by the application of £1.6m of specific funding to offset the impact of development on demand for Council services. The Council moves into 2018/19 with a balanced budget and planning is now well underway for 2019/20.

Our strong balance sheet and healthy level of one-off reserves enables us to plan with confidence for the future, albeit that these reserves can only be used once whilst the savings we must find are ongoing and the demands we must meet are increasing.

Our Vision, Priorities and Performance

In 2017/18 the Council published its new vision as follows:

People love living in Hammersmith & Fulham. It's diverse, connected, on the up and could be better still. In our part of this busy city, residents deserve a place that is safe, clean and green.

In Hammersmith & Fulham, we have compassion. We believe our residents should feel secure in their homes and on the streets. They should have high-quality services they can rely on. The area is changing and some are worried about growing unfairness, being left behind and the future of local services. This threatens what we want for the future.

We're strong because we care about our neighbours. We'll succeed if we bring people together and tackle what holds them back. We can't escape national and international challenges. Many will benefit locally, but some may lose out. We will not stand by.

We'll manage our finances responsibly and relentlessly challenge unfairness, waste and old-fashioned thinking in how we work. We're a compassionate council and are not afraid to take on the powerful to get results. We're making Hammersmith and Fulham the best place to do business in Europe. We support entrepreneurs and start-ups and generate opportunity and shared prosperity. We are a different kind of council – pioneering and relentlessly searching for better answers. We'll keep listening, working with residents and finding creative ways to take us forward.

The Council has also set out the following key priorities:

- Building shared prosperity
- Creating a compassionate Council
- Doing things with residents, not to them
- Being ruthlessly financially efficient
- Taking pride in Hammersmith and Fulham

Our vision and priorities are explored in more detail here:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/260_59_hf_vision_a4_booklet_rev8.pdf

An overview of the Council's priorities and performance for 2017/18 is available in the Council's business plan here:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/260_60cc_slr_business_plan_2017-18_nov-update_web.pdf

Organisational overview and external environment

As a unitary authority, Hammersmith and Fulham has one of the broadest remits in the public sector. Some of the key areas for which are responsible are as follows:

- Education
- Adult Social care
- Children's Services and Social Care
- Housing and Regeneration
- Transport
- Planning
- Libraries
- Waste management
- Rubbish collection and Recycling
- Trading standards
- Environmental Health
- Council Tax and Business Rates collections
- Planning applications
- Housing Benefit administration

This is by no means an exhaustive list and our website <https://www.lbhf.gov.uk/> provides a full overview our services and how to access them. The Government has also provided a useful overview of local authorities services and how councils work here: <https://www.gov.uk/understand-how-your-council-works>

Governance

The Authority operates the Leader / Cabinet system with 46 councillors in total representing 16 wards. The Council's governance arrangements are explained in detail in the Annual Governance Statement (AGS). The AGS is published as part of these accounts.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that it is efficient, transparent and accountable to local people. The latest version of the Council's Constitution can be viewed here:

www.lbhf.gov.uk/constitution

Organisational model

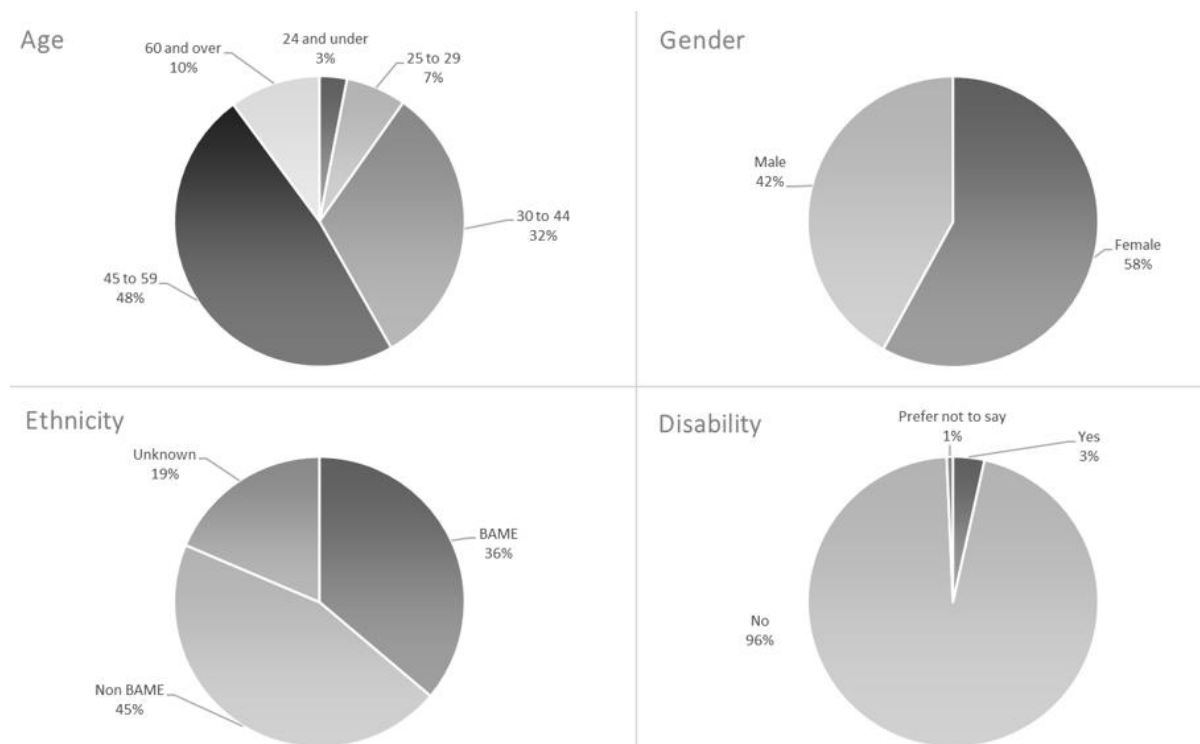
In 2017/18 council departments were reshaped to bring together services which fit better, making it easier to work out who does what and to align better with our vision. This structure will become operational from 1 April 2018.

A list of our main service areas and directors – who together comprise the Strategic Leadership Team - is as follows:

Chief executive	Kim Dero	kim.dero@lbhf.gov.uk
Strategic director of finance and governance	Hitesh Jolapara	hitesh.jolapara@lbhf.gov.uk
Strategic director of growth and place	Jo Rowlands	jo.rowlands@lbhf.gov.uk
Director of social care	Lisa Redfern	lisa.redfern@lbhf.gov.uk
Director of children's services	Steve Miley	steve.miley@lbhf.gov.uk
Director of residents' services	Nick Austin	nick.austin@lbhf.gov.uk
Director of corporate services	Mark Grimley	mark.grimley@lbhf.gov.uk
Director of public services reform	Rachael Wright-Turner	Rachael.Wright-Turner@lbhf.gov.uk

People

The Council employs 1,863 people in full time and part-time contracts (excluding schools). The Council's workforce generally reflects the diversity of residents across the Borough. Below is a detailed breakdown of the Council's employees.



The Council, like other large employers, has recently published its gender pay gap information. Hammersmith & Fulham has reported that the median (or typical) male employee earns 3.8 per cent more than the median female employee across the whole organisation. The average difference is 6.1 per cent. In comparison, we have a lower pay gap than 74 per cent of the organisations that have reported so far. However, 8 per cent have reported they have no pay gap – so for us it must be achievable to end this gap. So, we are not just accepting that a gender pay gap of 3.8 per cent is okay in comparison to other organisations. We want to be the best, and that means not settling for just good enough. We will work hard to improve the parity of pay and progression across every aspect of our work.

To see our gender pay results and those of other organisations you can visit:

<https://www.gov.uk/government/news/view-gender-pay-gap-information>

Risks and opportunities

The Council maintains a comprehensive risk register which is regularly reviewed by the Audit, Pensions and Standards Committee. This register is published as part of the relevant committee papers which can be accessed here:

<http://democracy.lbhf.gov.uk/mqCommitteeDetails.aspx?ID=338>

The Council’s key risks are summarised below:

The Council’s highest-level risks	Impact	Mitigation
Continued reductions imposed by national government in local government funding, restricts revenue spending.	Impacts on the Council’s ability to run full services and may mean that some services are changed or reduced.	Enhanced Assurance and Risk Monitoring across the Council. A robust Medium Term Financial Process (MTFS). Being ruthlessly financially efficient has been adopted as a core priority. Creating a leaner and more responsive management structure. Remodelling public services to ensure they genuinely satisfy residents’ needs.
Safeguarding, protecting people from harm.	Potential harm to those most vulnerable in society.	Creating a compassionate Council through Policies, training and management controls; lessons learnt reviews, quality assurance; enhanced checks. Multi-Agency Safeguarding Board Team with Social Care Partners - Police, Health, Education and links to Housing, and Youth Offending Teams. Professional Standards and Safeguarding Team. Independently chaired quarterly meetings of the Adults Safeguarding Board.

The Council's highest-level risks	Impact	Mitigation
Commercial Contract Management and Procurement.	Impact on our Services to our Residents, Visitors and Businesses and the local Environment.	Council Core Priorities include achieving the best service for our residents from council staff and contractors. Our priority will always be to deliver first class public services for all. We will do this through development of more rigorous corporate contract management guidance, the Commercial Management Initiative Programme and review of contract reform activity.
Contractor compliance with statutory inspections.	Impact on the Council as legal and responsible duty holders, under the health and safety regulations.	Doing things with, not to residents is a Council Priority. Detailed assessments on specific activities undertaken to ascertain how statutory duties and inspections are being discharged. Fundamental review of health and safety compliance. Launching the Fire Safety Plus programme for Housing with free fire safety checks, new fire doors and replacement appliances. Introduction of a compliance management system called Geometra which holds all compliance data.
Ongoing threat of Terrorism and Cyber threats.	Threat to our Residents, Visitors, Service Users and Business Community.	Emergency Planning and Business Continuity Planning. Training, Guidance, Plans, New Extranet development outreaching to our local community. Lessons Learned and Reviews. Service Resilience Group and Supply Chain Resilience.

Regarding opportunities, the Council continues to explore a number of regeneration schemes and opportunity areas through its Industrial Strategy. The Strategy – called **Economic Growth for Everyone** – reflects our ambition to make our borough the best place to do business in Europe and to ensure that everyone benefits. Hammersmith & Fulham is changing rapidly and we're determined to seize the opportunities for everyone. We believe local government has a role in supporting growth. It can bring partners together, regenerate town centres, help with affordable workspaces, teach people the skills they need, use procurement to support local firms and much more. In Hammersmith & Fulham, we want to use the power of local government to create a borough able to compete with the best in the 21st century. The detail of our Industrial Strategy is published online at: <https://www.lbhf.gov.uk/business/industrial-strategy>

The strategy also includes:

- How we will make it easier for savvy entrepreneurs to start and grow a business, creating more affordable workspaces, exploring business rates cuts for key sectors, and creating a new venture capital fund to support tech and creative businesses
- Details of major regeneration and infrastructure schemes, including delivering 10,000 new homes, half of which will be affordable, as well as improvements to rail links and the station at Old Oak Common
- Our investment in local skills, with extra support for science and maths teachers and apprenticeships.

Fire Safety Reviews

Following the tragic events at Grenfell Tower, the Council has been reviewing fire safety across the borough. In July 2017 the Council launched its Fire Safety Plus programme. The programme is detailed in full here: <https://www.lbhf.gov.uk/housing/hf-fire-safety-plus>. The overall value of this programme is £20m and this is reflected in the Council's spending plans moving forwards. Specifically, within the accounts presented here, an Earmarked Reserve of £12.8m has been established to support this programme.

In Hammersmith & Fulham, we have 15 council housing blocks of 12 storeys or more. Our tallest buildings are three, 23-storey blocks on Edward Woods estate in North Kensington. We have reviewed fire safety, and have fire risk assessments for all these blocks.

The only blocks with cladding are those at the Edward Woods Estate. Specialist independent tests on the cladding at Edward Woods Estate have been completed and all three blocks have passed. While no further action is needed in relation to the cladding, we are still working with our advisors on other things we can do to make Edward Woods Estate as safe as it can possibly be.

We also have some of the country's best independent experts validating our Fire Risk Assessments as part of our action plan following the Shepherds Court fire in August 2016.

A comprehensive overview of the Council's response to the Grenfell fire and the checks it has undertaken is available here: <https://www.lbhf.gov.uk/emergencies-and-safety/hf-response-grenfell-tower-fire>

The Environment

In our part of a busy city, residents deserve a place that is safe, clean and green. We're working hard to be the most environmentally positive borough in London, because the health and wellbeing of our communities is so important.

Some of our key environmental achievements and ambitions are set out below:

- We've guaranteed to keep our weekly (and in some cases twice-weekly) bin collections.
- To help cut pollution, we've set up the largest electric vehicle charging points network in the country and an electric car club.
- We've halted the standardised spraying of environmentally harmful glyphosate weed killers and pioneered eco-friendly alternatives.
- We've become the leading London authority for eco-friendly flood reduction schemes: three of our sustainable drainage projects have won awards.
- We've installed energy-saving LED streetlights throughout the borough.
- Our Street Czar is working with local residents and community groups to help make streets cleaner and more attractive.
- We're setting up an ecology centre and we're acting on other findings of the Biodiversity Commission to protect the borough's wildlife.
- We're setting up a low emissions zone on the south side of Hammersmith Broadway.

Finance Strategy, Performance and Outlook

Strategy and resource allocation

Local government finances continue to be dominated by the austerity agenda. From 2010/11 to 2017/18 the Council's government funding was cut by £70m and further cuts will continue until at least 2020/21. Despite this pressure the Council remains well positioned in a demanding environment.

The Council has embedded the **Medium Term Financial Strategy (MTFS)** within its business planning framework. The MTFS has been the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a forum for challenging budget and service proposals, identifying and developing savings and efficiencies and dealing with significant financial risks, in particular the continued reduction of Government funding. The Council's funding reduction from government in 2017/18 was £8.9m. In addition, the Government imposed £0.7m of unfunded new burdens on the Council for 2017/18.

Annually, the Council sets the **revenue budget** – this sets out the Council's spending plans on day-to-day expenditure which includes everything from staff salaries, building maintenance and the costs of running refuse vehicles. It is a legal requirement of the Council to set a balanced budget i.e. expenditure cannot be more than the Council's income. In brief, the 2017/18 budgets included:

- A Council Tax freeze including not levying a 2% adult social care precept as suggested by Central Government. This meant that H&F residents paid council tax at 4% below the level modelled (2% social care precept and 4% for council tax) by the Government in 2017/18
- Savings of £15.4 million off-setting cost pressures and grant losses; which produced:
- a net revenue budget requirement of £144.2 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government within a gross budget of £642 million.

The Council's 2017/18 Budget Strategy recognised the challenge in delivering the scale of budget reductions and recommended that the range for the optimal level of general balances be maintained at £14m - £20m. The actual general balances carried forward at the close of 2017/18 are £19m.

As part of the Council's budget consultation and stakeholder engagement process the budget proposals were reviewed by all the Policy and Accountability Committees. The minutes of the PACs detailing the key features and findings of this process are published here: <https://www.lbhf.gov.uk/councillors-and-democracy/councillors-committees-and-decisions/scrutiny>

The Council also approves the **capital programme** which captures the spending of what is, typically, "one-off" money to purchase or improve the Council's long-term assets (such as buildings and vehicles). The 2017-21 capital programme included:

- A Housing programme in excess of £170m.

- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough.
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.

Financial Performance

The revenue outturn for 2017/18 includes:

- Council revenue expenditure for 2017/18 has been fully funded after the additional application of £1.6m of specific developer contributions to offset the impact of development on demand for Council services;
- A General Fund balance of £19m and earmarked reserves at 31 March 2018 of £95 million; and
- A stable balance sheet.

The draft 2017/18 Statement of Accounts sets out the Council's spending and funding in line with accounting requirements. The position below explains the same information in the form of the Council's management accounts. The Council's financial position (for example, total usable reserves and final working balance) is the same in both formats.

The summary General Fund outturn position is as set out below:

Department	Budget	Actual	Over/ (Under) Spend
	£m	£m	m
Children's Services	57.206	60.427	3.221
Adult Social Care	61.364	61.388	0.024
Regeneration, Planning and Housing Service	11.027	11.010	(0.017)
Controlled Parking Account	(22.511)	(23.154)	(0.643)
Environmental Services	46.887	47.254	0.367
Public Health	-	-	-
Libraries and Archives	2.843	2.856	0.013
Corporate Services	20.173	20.725	0.552
Centrally Managed Budgets	33.423	29.906	(3.517)
Gross Operating Expenditure	210.412	210.412	-
Technical and Financial Accounting Adjustments	(52.741)	(52.741)	-
NDR Tariff	18.059	18.059	-
Capital Grants	(11.813)	(11.813)	-
Non-Ring-fenced Revenue Grants	(20.021)	(20.021)	-
Net Contribution to Earmarked Reserves	(12.008)	(12.088)	-
Total Net Expenditure	154.614	154.614	-

Funded by:			
Formula Grant	29.499	29.499	-
Localised NDR	69.677	69.677	-
Council Tax	55.438	55.438	-
Total Funding	154.614	154.614	-
Final Position	-	-	-

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The closing balance on the Housing Revenue Account was £9.946m with associated Earmarked Reserves of £41.664m. Full details are set out in the HRA Statement of Accounts.

The Council's **Balance Sheet** as at 31 March 2018 is summarised below. The overall balance sheet position is substantially stable.

LBHF Summary Balance Sheet	31 Mar 2018	31 Mar 2017
	£m	£m
Long Term Assets	1,882	1,839
Current Assets	379	390
Current Liabilities	(191)	(185)
Net Pension Liabilities	(665)	(691)
Other Long-Term Liabilities	(248)	(244)
Net Assets	1,157	1,109
<i>Represented by:</i>		
Usable Reserves	(250)	(238)
Unusable reserves	(907)	(871)
Total Reserves	(1,157)	(1,109)

The breakdown of the usable reserves is set out below:

LBHF Summary Usable Reserves	31 March 2018	31 March 2017
	£m	£m
General Fund Balance	(19)	(19)
General Fund Earmarked Reserves	(95)	(83)
HRA Balance and Earmarked Reserves	(52)	(46)
Schools Reserves	(11)	(9)
Capital Reserves (Receipts and Grants)	(73)	(81)
Total	(250)	(238)

Capital

In 2017/18, the actual capital expenditure (outturn) totalled £73.6 million. The table below summarises capital expenditure by service area:

Department	2017/18	2016/17
	£'000	£'000
Adult Social Care	393	315
Children's Services	17,409	12,655
Environmental Services	10,704	13,345
Finance and Corporate Services	5,790	95
Housing Revenue Account Programme	23,766	40,294
Regeneration, Planning and Housing Service	14,148	3,922
General Fund Schemes under Housing Management	1,344	-
Total	73,556	70,626

The 2017/18 capital programme was financed as follows:

Capital Financing	2017/18 £'000	2016/17 £'000
Capital receipts	22,345	25,085
Increase in Capital Finance Requirement (CFR)	6,550	5,528
Capital Grants and Contributions	26,644	15,168
Major Repairs Reserve (MRR)	16,261	17,618
Council and School reserves	1,703	4,119
Housing Revenue Account	37	3,048
General Fund Revenue Account	15	60
Total	73,556	70,626

Financial Outlook

Government funding is forecast to reduce further. Funding has reduced by £8.6m in 2018/19 and a further £5.2m cut is forecast in 2019/20.

The 2018/19 revenue budget was approved in February 2018 and included the following:

- A freeze in the Hammersmith and Fulham element of Council Tax including not levying a 3% adult social care precept as suggested by Central Government.
- Growth of £6.5m has been provided to meet statutory obligations, demographic, service pressures and key resident priorities;
- Savings of £15.0 million off-setting cost pressures and grant losses. 40% of the savings relate to central support services and income from commercial activities;
- Overall this produced a net revenue budget requirement of £138.9 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government.

The 2018-22 capital programme, also approved in February 2018, includes:

- A Housing programme in excess of £200m
- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough.
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.

The medium-term outlook for local authority financing remains extremely challenging, however management are not aware of any material uncertainties in relation to the authority's ability to continue as a going concern.

Structure of the Statement of Accounts and Basis of preparation

The Statement of Accounts sets out the Council's income and expenditure for the financial year 2017/18 and its Balance Sheet at 31 March 2018. This covers the General Fund, Housing Revenue Account, Pension Fund and the Collection Fund. The format of the accounts follows the Code of Practice on Local Authority Accounting in the UK 2017/18, which specifies the principles and practices of accounting required to give a "true and fair" view of the financial position, financial performance and cash flows of a local authority. It primarily comprises the Main Financial Statements (including notes to the accounts) and Additional Statements / Other Notes.

The Statement of Accounts comprises:

Key Financial Statements

- The **Movement in Reserves Statement (MiRS)** is a summary of the changes to the Council's reserves during the course of the financial year. The reserves represent the Council's net worth and are analogous to the equity of a private company. Reserves are divided into 'usable' and 'unusable' reserves. Usable reserves can be used to fund expenditure or reduce the council tax; unusable reserves cannot.
- The **Comprehensive Income and Expenditure Statement (CIES)** reports all of the Council's gains and losses during the financial year. The CIES is prepared in accordance with International Financial Reporting Standards and the detail will therefore differ from the Council's management accounts and revenue budgets. However, the Council's financial position i.e. the working balance and usable reserves, will be the same.

- The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2018. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

- The **Cash Flow Statement** shows the changes to the Council's cash and 'cash equivalents' during the financial year. Cash equivalents are assets that can be readily converted into cash and have a low likelihood of a change in value. The statement shows cash flows from: 'operating' activities, which are the cash flows from the Council's services; 'investing' activities, which are the cash flows from the Council's capital investment, investments and asset sales; and 'financing' activities, which are primarily the cash flows relating to the Council's borrowings.

Explanatory Notes

- The **Notes** provide more detail about the items contained in the key financial statements, the Council's accounting policies and other information that helps interpretation and understanding of the key financial statements and accounts.

- Included in the Notes is the **Expenditure and Funding Analysis (EFA)**. This shows how annual expenditure is used and funded from resources by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting principles.

Supplementary Financial Statements

- The **Housing Revenue Account** shows the income and expenditure relating to the provision of housing and associated services to the council tenants and leaseholders and includes the Statement of Movement on the HRA Fund Balance. This reflects the statutory obligation of the council to account separately for the cost of its activities as a landlord in the provision of council housing

- The **Collection Fund Account** summarises the income and expenditure relating to the collection of council tax and non-domestic rates, including the precept collected on behalf of the Greater London Authority. It sets out the contribution of Hammersmith and Fulham council tax payers to the costs of local services and its distribution to the Greater London Authority.

- The **Pension Fund Account** sets out a summary of the transactions during the year (Fund Account) and the overall financial position of the fund at 31 March 2017 (Net Assets Statement).

The **Annual Governance Statement** is a statement by the Leader of the Council and the Chief Executive on the arrangements and systems for internal control across the council and the governance arrangements of the Council.

Materiality and Group Accounts

Group Accounts have not been included in the 2017/18 Statement of Accounts on the grounds that they do not have a material effect on the overall statements. Their inclusion does not provide any more usefulness to readers. The Council's interests which have been considered for the purposes of group accounting are detailed in Note 33 – Interest in Companies. We will continue to assess these interests for inclusion in future accounts should they become material.

In addition, the Council is the sole trustee of the Wormwood Scrubs Charitable Trust (WSCT). Again, group accounts have not been prepared on the grounds of materiality however Note 35 provides a high-level summary of the balances of the Trust. The Trust's annual report and accounts are considered annually by the WSCT Committee and published here: <http://democracy.lbhf.gov.uk/mgCommitteeDetails.aspx?ID=467>. The Trust's accounts are also available via the Charity Commission website.

Accounting Policies

The 2017/18 accounts are compliant with International Financial Reporting Standards (IFRS). They comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom 2017 (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out in Note 37 to the Statement of Accounts. These are substantially unchanged from 2016/17.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Director of Finance and Governance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Strategic Director of Finance and Governance

The Strategic Director of Finance and Governance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Director of Finance and Governance has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice on Local Authority Accounting.

The Strategic Director of Finance and Governance has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

I confirm that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2018 and income and expenditure for the year for the financial year 2017/18.

Hitesh Jolapara
Strategic Director of Finance and Governance
17 July 2018

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

Comprehensive Income and Expenditure Statement

Balance Sheet

Cash Flow Statement

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Notes	General Fund (GF) Balance £000	GF Earmarked Reserves £000	Schools Balance £000	Housing Revenue Account (HRA) £000	HRA Earmarked Reserves £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016	(19,004)	(90,057)	(13,533)	(18,520)	(22,795)	(43,632)	(406)	(48,951)	(878)	(257,776)	(1,107,936)	(1,365,712)
Movement in Reserves during 2016/17												
Total Comprehensive Income and Expenditure	83,798	-	-	4,254	-	-	-	-	-	88,052	169,047	257,099
Adjustments between accounting basis & funding basis under regulations	3a (72,986)	-	763	(8,392)	-	2,129	-	10,257	-	(68,229)	68,229	-
Transfer to/(from) Earmarked Reserves	(10,812)	7,071	3,741	2,530	(2,530)	-	-	-	-	-	-	-
(Increase)/Decrease in 2016/17	-	7,071	4,504	(1,608)	(2,530)	2,129	-	10,257	-	19,823	237,276	257,099
Balance at 31 March 2017	(19,004)	(82,986)	(9,029)	(20,128)	(25,325)	(41,503)	(406)	(38,694)	(878)	(237,953)	(870,660)	(1,108,613)
Movement in Reserves during 2017/18												
Total Comprehensive Income and Expenditure	43,381	-	-	18,652	-	-	-	-	-	62,033	(110,160)	(48,127)
Adjustments between accounting basis & funding basis under regulations	3a (57,689)	-	-	(24,809)	-	3,185	(232)	5,517	-	(74,028)	74,028	-
Transfer to/(from) Earmarked Reserves	14,308	(12,008)	(2,300)	16,339	(16,339)	-	-	-	-	-	-	-
(Increase)/Decrease in 2017/18	-	(12,008)	(2,300)	10,182	(16,339)	3,185	(232)	5,517	-	(11,995)	(36,132)	(48,127)
Balance at 31 March 2018	(19,004)	(94,994)	(11,329)	(9,946)	(41,664)	(38,318)	(638)	(33,177)	(878)	(249,948)	(906,792)	(1,156,740)

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	Notes	Year Ended 31 March 2018			Year Ended 31 March 2017		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Children's Services		177,413	(119,454)	57,959	174,530	(115,809)	58,721
Adult Social Care		97,985	(37,863)	60,122	95,480	(34,675)	60,805
Regeneration, Planning and Housing Service		38,192	(27,097)	11,095	38,575	(23,545)	15,030
Local authority housing (HRA)		68,530	(86,468)	(17,938)	68,233	(81,499)	(13,266)
Local authority housing (HRA) - Dwelling Revaluation	5	35,780	-	35,780	15,131	-	15,131
Controlled Parking Account		13,602	(36,756)	(23,154)	12,626	(35,421)	(22,795)
Environmental Services		72,825	(26,828)	45,997	68,386	(24,353)	44,033
Public Health		23,776	(23,776)	-	22,843	(22,843)	-
Libraries and Archives		3,212	(356)	2,856	3,934	(512)	3,422
Corporate Services		37,291	(16,407)	20,884	31,039	(7,834)	23,205
Centrally Managed Budgets		135,568	(125,285)	10,283	165,177	(151,395)	13,782
Cost of Services		704,174	(500,290)	203,884	695,954	(497,886)	198,068
Other Operating Expenditure	6	6,243	(7,327)	(1,084)	42,535	(983)	41,552
Financing and investment income and expenditure	7	30,251	(1,060)	29,191	30,740	(2,389)	28,351
Taxation and non-specific grant income and expenditure	8	18,059	(188,017)	(169,958)	2,961	(182,880)	(179,919)
(Surplus) or Deficit on Provision of Services				62,033			88,052
(Surplus) or deficit on revaluation of non-current assets				(54,213)			(16,992)
(Surplus) or deficit on revaluation of available for sale financial assets				(2,820)			1,755
Remeasurements of the net defined benefit liability	27			(53,127)			184,284
Other Comprehensive Income and Expenditure				(110,160)			169,047
Total Comprehensive Income and Expenditure				(48,127)			257,099

* The 2016/17 amounts within Costs of Services were restated due to restructure of services between Environment Services and Regeneration, Planning and Housing Service.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves, unusable reserves, are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note No.	31 March 2018 £000	31 March 2017 £000
Property, Plant and Equipment	9	1,770,412	1,746,727
Heritage Assets	11	8,023	8,023
Investment Property	10	83,899	81,744
Intangible Assets		413	608
Long Term Investments	21	17,695	195
Long Term Debtors	21	1,330	1,384
Long Term Assets		1,881,772	1,838,681
Assets Held for Sale	12	-	4,435
Short Term Investments	21	238,429	279,478
Short Term Debtors	16	56,055	53,280
Inventories		70	69
Cash and Cash Equivalents	17	82,874	52,683
Current Assets		377,428	389,945
Short Term Borrowing	21	(7,040)	(10,052)
Short Term Creditors	18	(172,167)	(162,367)
Provisions	20	(9,894)	(7,927)
Grants and Contributions Receipts in Advance	30	(490)	(4,868)
Current Liabilities		(189,591)	(185,214)
Long Term Borrowing	21	(213,101)	(217,661)
Long Term Creditors	21	(100)	(100)
Provisions	20	(184)	(193)
Other Long Term Liabilities	19	(672,774)	(700,568)
Grants and Contributions Receipts in Advance	30	(26,710)	(16,277)
Long Term Liabilities		(912,869)	(934,799)
NET ASSETS		1,156,740	1,108,613
Usable Reserves	3b	(249,948)	(237,953)
Unusable Reserves	3c	(906,792)	(870,660)
TOTAL RESERVES		(1,156,740)	(1,108,613)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority. The Cashflow Statement has been prepared using the indirect method.

	Notes	2017/18 £000	2016/17 £000
Net surplus or (deficit) on the provision of services		(62,033)	(88,052)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	102,006	116,148
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(19,129)	(15,394)
Net cash flows from Operating Activities		20,844	12,702
<u>Investing Activities</u>			
Purchase of Property, plant and equipment, investment property and intangible assets		(50,948)	(60,293)
Purchase of short-term and long-term investments		-	(14,743)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		19,129	15,394
Proceeds from short-term and long-term investments		23,549	-
Other receipts from investing activities		33,321	17,537
Net cash flows from Investing Activities		25,051	(42,106)
<u>Financing Activities</u>			
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(335)	(333)
Repayments of short and long term borrowing		(7,206)	(7,464)
Other payments for financing activities		(8,163)	(10,782)
Net cash flows from Financing Activities		(15,704)	(18,578)
Net increase or (decrease) in cash and cash equivalents		30,191	(47,982)
Cash and cash equivalents at the beginning of the reporting period		52,683	100,665
Cash and cash equivalents at the end of the reporting period	17	82,874	52,683

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's departments. Income and expenditure is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18	Total			General Fund			HRA		
	Comprehensive Income and Expenditure Statement (CIES)	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children's Services	57,959	(6,254)	51,705	57,959	(6,254)	51,705	-	-	-
Adult Social Care	60,122	(1,320)	58,802	60,122	(1,320)	58,802	-	-	-
Regeneration, Planning and Housing Service	11,095	(1,069)	10,026	11,095	(1,069)	10,026	-	-	-
HRA	17,842	(38,643)	(20,801)	-	-	-	17,842	(38,643)	(20,801)
Controlled Parking Account	(23,154)	(889)	(24,043)	(23,154)	(889)	(24,043)	-	-	-
Environmental Services	45,997	(15,412)	30,585	45,997	(15,412)	30,585	-	-	-
Public Health	-	(16)	(16)	-	(16)	(16)	-	-	-
Libraries and Archives	2,856	(300)	2,556	2,856	(300)	2,556	-	-	-
Corporate Services	20,884	(4,678)	16,206	20,884	(4,678)	16,206	-	-	-
Centrally Managed Budgets	10,283	4,199	14,482	10,283	4,199	14,482	-	-	-
	203,884	(64,382)	139,502	186,042	(25,739)	160,303	17,842	(38,643)	(20,801)
Other income and expenditure not charged to services	(141,851)	(18,116)	(159,967)	(142,661)	(31,950)	(174,611)	810	13,834	14,644
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	62,033	(82,498)	(20,465)	43,381	(57,689)	(14,308)	18,652	(24,809)	(6,157)
<i>Appropriations to and (from) reserves:</i>									
Earmarked reserves (See Note 4)			28,347			12,008			16,339
Schools Reserves transfer			2,300			2,300			-
(Surplus) or Deficit after planned use of Earmarked Reserves			10,182			-			10,182
Opening Balance of General Fund/ HRA Working Balance			(39,132)			(19,004)			(20,128)
add: (Surplus) or Deficit after planned use of Earmarked Reserves			10,182			-			10,182
Closing Balance of General Fund/ HRA Working Balance			(28,950)			(19,004)			(9,946)

2016/17	Total			General Fund			HRA		
	Comprehensive Income and Expenditure Statement (CIES)	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children's Services	58,721	(3,202)	55,519	58,721	(3,202)	55,519	-	-	-
Adult Social Care	60,805	(589)	60,216	60,805	(589)	60,216	-	-	-
Regeneration, Planning and Housing Service	15,030	(862)	14,168	15,030	(862)	14,168	-	-	-
HRA	1,865	(19,266)	(17,401)	-	-	-	1,865	(19,266)	(17,401)
Controlled Parking Account	(22,795)	(582)	(23,377)	(22,795)	(582)	(23,377)	-	-	-
Environmental Services	44,033	(13,967)	30,066	44,033	(13,967)	30,066	-	-	-
Public Health	-	(1)	(1)	-	(1)	(1)	-	-	-
Libraries and Archives	3,422	(362)	3,060	3,422	(362)	3,060	-	-	-
Corporate Services	23,205	(202)	23,003	23,205	(202)	23,003	-	-	-
Centrally Managed Budgets	13,782	2,504	16,286	13,782	2,504	16,286	-	-	-
	198,068	(36,529)	161,539	196,203	(17,263)	178,940	1,865	(19,266)	(17,401)
Other income and expenditure not charged to services	(110,016)	(44,849)	(154,865)	(112,405)	(55,723)	(168,128)	2,389	10,874	13,263
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	88,052	(81,378)	6,674	83,798	(72,986)	10,812	4,254	(8,392)	(4,138)
<i>Appropriations to and (from) reserves:</i>									
Earmarked reserves (See Note 4)			(4,541)			(7,071)			2,530
Schools Reserves transfer			(3,741)			(3,741)			-
(Surplus) or Deficit after planned use of Earmarked Reserves			(1,608)			-			(1,608)
Opening Balance of General Fund/ HRA Working Balance			(37,524)			(19,004)			(18,520)
add: (Surplus) or Deficit after planned use of Earmarked Reserves			(1,608)			-			(1,608)
Closing Balance of General Fund/ HRA Working Balance			(39,132)			(19,004)			(20,128)

The Cost of Service per the Comprehensive Income and Expenditure Statement is substantially similar to the position as reported to decision makers (per the management accounts as summarised in Narrative Report, p. 12). This is because the Council's management accounts include technical items such as capital charges and pension adjustments where these are chargeable to services. The differences which do arise are attributable to items which are included within the Departmental analysis in the Council's management accounts but are reported below the cost of services line in the statements of accounts. These items primarily consist of financing income and expenditure, levies, and a small number of technical accounting entries.

1a. Note to the Expenditure and Funding Analysis

Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement Amounts

	2017/18				2016/17			
	Adjustments for Capital Purposes	Net Change for Pension Adjustments	Other Differences	Total Adjustments	Adjustments for Capital Purposes	Net Change for Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000	£000	£000	£000
Children's Services	(2,873)	(3,381)	-	(6,254)	(2,640)	(562)	-	(3,202)
Adult Social Care	(790)	(769)	240	(1,320)	(679)	(121)	211	(589)
Regeneration, Planning and Housing Service	(601)	(468)	-	(1,069)	(786)	(76)	-	(862)
HRA	(37,942)	(701)	-	(38,643)	(19,268)	2	-	(19,266)
Controlled Parking Account	(561)	(328)	-	(889)	(534)	(48)	-	(582)
Environmental Services	(14,579)	(942)	109	(15,412)	(13,923)	(151)	107	(13,967)
Public Health	-	(16)	-	(16)	-	(1)	-	(1)
Libraries and Archives	(220)	(80)	-	(300)	(347)	(15)	-	(362)
Corporate Services	(108)	(4,570)	-	(4,678)	(220)	(175)	193	(202)
Centrally Managed Budgets	(408)	3,815	793	4,199	1,111	1,239	154	2,504
Net Cost of Services	(58,082)	(7,441)	1,141	(64,381)	(37,286)	92	665	(36,529)
Other income and expenditure not charged to services - General Fund	(16,022)	(16,594)	665	(31,950)	(41,102)	(15,507)	886	(55,723)
Other income and expenditure not charged to services - HRA	(27)	(1,670)	15,532	13,834	12,741	(1,781)	(86)	10,874
(Surplus) or Deficit on Provision of Services	(74,131)	(25,705)	17,338	(82,498)	(65,647)	(17,196)	1,465	(81,378)

2. Expenditure and Income Analysed by Nature

This Note analyses the nature of the council's expenditure and income. The totals for income and expenditure vary from the totals for gross expenditure and income on the CIES, due to the treatment of internal recharges, and from showing NDR income and gains/losses on disposals as net figures in this note.

	2017/18	2016/17
	£000	£000
		Restated*
Expenditure		
Employee Benefits	177,530	175,115
Other Services Expenses	434,460	464,680
Support Service Recharges	(1,000)	1
Capital Charges	93,973	64,927
Losses on the disposal of non-current assets	-	38,756
Interest Payments	11,987	12,775
Levies	2,791	2,837
Business rates tariff	18,059	2,961
Payments to the Government Housing Capital Receipts Pool	2,664	781
Net interest on the net defined benefit liability (asset)	18,264	17,288
Schools converted to Academy Status	-	677
Total Expenditure	758,728	780,798
Income		
Fees, Charges and other Service Income	(239,562)	(237,395)
Government Grants and Contributions	(323,631)	(337,295)
Income from Council Tax and NDR	(125,115)	(114,867)
Interest and Investment Income	(1,060)	(2,389)
Other Operating Income and Expenditure	-	(800)
Gains on the disposal of non-current assets	(7,327)	-
Total Income	(696,695)	(692,746)
(Surplus) or Deficit on the Provision of Services	62,033	88,052

* The subjective headings were formatted to follow the CIPFA Code of Practice recommended disclosure. This meant the 2016/17 amounts were re-stated from the audited accounts.

3a. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against:

General Fund Balances - The General Fund includes any surplus after meeting net expenditure on Council Services.

School Balances - This balance is comprised of unspent balances of schools and other educational establishments at the year end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.

Earmarked Reserves - these are amounts set aside for specific purposes see Note 4 for a description of each Earmarked Reserve.

Capital Grants Unapplied - These are capital grants with no payback conditions and have had no associated expenditure in 2017/18 or prior years.

Housing Revenue Account - This reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act 1989.

Major Repairs Reserve - The Major Repairs Reserve is available for financing major repairs to the Council's housing stock.

Capital Receipts Reserve - This reserve relates to the capital receipts from the sale of assets, such as Right-To-Buy properties and other general receipts.

Capital Reserves - This is to hold retained capital receipts from the sale of assets.

3a. Adjustments between Accounting Basis and Funding Basis under Regulations

2017/18	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Adjustments to the Revenue Resources									
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:									
Pensions costs (transferred to (or from) the Pensions Reserve)	(23,333)	-	-	-	(2,372)	-	-	-	(25,705)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	111	-	-	-	(38)	-	-	-	73
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(10,674)	-	-	-	-	-	-	-	(10,674)
Holiday pay (transferred to the Accumulated Absences Reserve)	424	-	-	-	-	-	-	-	424
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(47,026)	-	-	-	(58,318)	(232)	-	-	(105,576)
Total Adjustments to Revenue Resources	(80,498)	-	-	-	(60,728)	(232)	-	-	(141,458)
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve									
	7,000	-	-	-	12,839	-	(19,839)	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)									
	-	-	-	-	(121)	-	121	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)									
	(2,664)	-	-	-	-	-	2,664	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve									
	-	-	-	-	16,261	(16,261)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)									
	605	-	-	-	-	-	-	-	605
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)									
	1,719	-	-	-	37	-	-	-	1,756
Total Adjustments between Revenue and Capital Resources	6,660	-	-	-	29,016	(16,261)	(17,054)	-	2,361
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure									
	868	-	-	(3,517)	2,649	-	22,345	-	22,345
Use of the Major Repairs Reserve to finance capital expenditure									
	-	-	-	-	-	16,261	-	-	16,261
Application of capital grants to finance capital expenditure									
	15,689	-	-	6,702	4,254	-	-	-	26,645
Movements in the market value of investment properties									
	(408)	-	-	-	-	-	-	-	(408)
Cash payments in relation to deferred capital receipts									
	-	-	-	-	-	-	226	-	226
Total Adjustments to Capital Resources	16,149	-	-	3,185	6,903	16,261	22,571	-	65,069
Total Adjustments	(57,689)	-	-	3,185	(24,809)	(232)	5,517	-	(74,028)

3a. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)

2016/17	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Adjustments to the Revenue Resources									
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:									
Pensions costs (transferred to (or from) the Pensions Reserve)	(15,417)	-	-	-	(1,779)	-	-	-	(17,196)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	29	-	-	-	(86)	-	-	-	(57)
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	885	-	-	-	-	-	-	-	885
Holiday pay (transferred to the Accumulated Absences Reserve)	18	-	-	-	-	-	-	-	18
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(75,422)	-	-	-	(46,564)	3,879	-	-	(118,107)
Total Adjustments to Revenue Resources	(89,907)	-	-	-	(48,429)	3,879	-	-	(134,457)
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve									
	650	-	-	-	14,619	-	(15,774)	-	(505)
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(7)	-	-	-	(158)	-	165	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(781)	-	-	-	-	-	781	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	21,498	(21,498)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	619	-	-	-	-	-	-	-	619
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,120	763	-	-	3,249	-	-	-	7,132
Total Adjustments between Revenue and Capital Resources	3,601	763	-	-	39,208	(21,498)	(14,828)	-	7,246
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	4,195	-	-	(4,966)	771	-	25,085	-	25,085
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	17,619	-	-	17,619
Application of capital grants to finance capital expenditure	8,014	-	-	7,095	58	-	-	-	15,167
Movements in the market value of investment properties	1,111	-	-	-	-	-	-	-	1,111
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	-	-	-
Total Adjustments to Capital Resources	13,320	-	-	2,129	829	17,619	25,085	-	58,982
Total Adjustments	(72,986)	763	-	2,129	(8,392)	-	10,257	-	(68,229)

3b. Usable Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement.

3c Unusable Reserves

	31 March 2018 £000	31 March 2017 £000
Revaluation Reserve	(256,451)	(206,286)
Capital Adjustment Account	(1,322,825)	(1,356,870)
Deferred Capital Receipts Reserve	-	(52)
Pensions Reserve	664,989	692,410
Financial Instruments Adjustment Account	1,126	1,199
Available for Sale Financial Instruments Reserve	5	2,825
Collection Fund Adjustment Account	3,188	(7,486)
Accumulated Absences Account	3,176	3,600
Total Unusable Reserves	(906,792)	(870,660)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2017/18 £000	2016/17 £000
Balance as 1 April	(206,286)	(199,295)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(54,213)	(16,992)
Difference between fair value depreciation and historical cost depreciation	2,183	4,450
Accumulated gains on assets sold or scrapped	1,865	5,551
Amount written off to the Capital Adjustment Account	4,048	10,001
Balance at 31 March	(256,451)	(206,286)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2017/18 £000	2016/17 £000
Balance as 1 April	(1,356,870)	(1,398,744)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation non-current assets	19,667	20,225
• Revaluation losses on property, plant and equipment	38,044	14,095
• Amortisation of intangible assets	195	197
• Revenue expenditure funded from capital under statute	19,806	8,913
• Reversal of Major Repairs Allowance credited to the HRA	16,261	21,498
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	11,602	53,684
	105,575	118,612
Adjusting amounts written out of the Revaluation Reserve	(4,048)	(10,001)
Net written out amount of the cost of non-current assets consumed in the year	101,527	108,611
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(22,345)	(25,085)
• Use of the Major Repairs Reserve to finance new capital expenditure	(16,261)	(17,619)
• Capital grants and contributions applied	(26,644)	(15,167)
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(605)	(619)
• Capital expenditure charged against the General Fund and HRA balances	(1,755)	(7,132)
	(67,610)	(65,622)
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	408	(1,111)
Release of deferred costs from Capital Adjustment Account to Capital Receipts Reserve upon receipt of cash	(280)	(4)
Balance at 31 March	(1,322,825)	(1,356,870)

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2017/18 £000	2016/17 £000
Balance as 1 April	(52)	(56)
Transfer to the Capital Receipts Reserve upon receipt of cash	52	4
Balance at 31 March	-	(52)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18 £000	2016/17 £000
Balance as 1 April	692,410	490,930
Remeasurements of the net defined benefit liability/(asset)	(53,127)	184,284
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	44,825	35,208
Employer's pensions contributions and direct payments to pensioners payable in the year	(19,119)	(18,012)
Balance as 31 March	664,989	692,410

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2017/18 £000	2016/17 £000
Balance as 1 April	1,199	1,142
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(73)	57
Balance as 31 March	1,126	1,199

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

	2017/18 £000	2016/17 £000
Balance as 1 April	2,825	1,070
Upward / (Downward) revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(2,820)	1,755
Balance as 31 March	5	2,825

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2017/18 £000	2016/17 £000
Balance as 1 April	(7,486)	(6,601)
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	10,674	(885)
Balance as 31 March	3,188	(7,486)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2017/18 £000	2016/17 £000
Balance as 1 April	3,600	3,618
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(424)	(18)
Balance as 31 March	3,176	3,600

4. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2017/18. A number of reserves have been consolidated in 2017/18 and these have been reflected in the table below.

	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Movement Between Reserves 2016/17 £000	Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Movement Between Reserves 2017/18 £000	Balance at 31 March 2018 £000
General Fund									
1 Insurance Fund	(5,720)	-	(622)	-	(6,342)	665	(635)	-	(6,312)
2 Controlled Parking Fund	(1,153)	521	(521)	99	(1,054)	228	(520)	-	(1,346)
3 Computer Replacement Fund	(1,237)	55	-	-	(1,182)	-	-	1,182	-
4 IT Infrastructure	(4,528)	3,531	(800)	(591)	(2,388)	-	(800)	3,188	-
5 Efficiency Projects Reserve	(14,552)	3,303	(4,949)	449	(15,749)	-	(3,783)	1,897	(17,635)
6 Corporate Demand Pressures	(9,133)	219	-	1,383	(7,531)	570	-	(4,483)	(11,444)
7 Dilapidations/Office Moves	(4,248)	921	-	-	(3,327)	552	(138)	2,913	-
8 Housing Benefit	(2,248)	-	-	-	(2,248)	-	-	2,248	-
9 Planning Inquiries	(291)	291	-	-	-	-	-	-	-
10 LPFA Sub Fund	(1,000)	-	(272)	-	(1,272)	-	(128)	-	(1,400)
11 Temporary Accommodation	(3,506)	-	-	-	(3,506)	582	(286)	-	(3,210)
12 ASC Pressures & Demands	(2,994)	1,116	-	-	(1,878)	-	-	-	(1,878)
13 Human Resources Reserve	(920)	-	-	-	(920)	-	-	920	-
14 Capital Reserves	(1,720)	298	(524)	-	(1,946)	1,009	-	-	(937)
15 Supporting People Programme	(1,809)	300	-	-	(1,509)	300	-	-	(1,209)
16 MTFS Delivery Risk	(6,148)	523	-	-	(5,625)	-	-	5,470	(155)
17 VAT Reserve	(2,500)	-	-	-	(2,500)	-	-	2,500	-
18 Business Board Reserve	(1,080)	-	-	-	(1,080)	-	-	1,080	-
19 TFM Reserve	(890)	37	-	-	(853)	500	(1,154)	-	(1,507)
20 3SIF Grant Reserve	(941)	-	(67)	-	(1,008)	280	-	8	(720)
21 Troubled Families	(579)	-	(238)	-	(817)	-	(258)	-	(1,075)
22 NDR Deficit Support	(3,208)	-	-	-	(3,208)	-	(5,256)	3,209	(5,255)
23 Stock Options Appraisal	(466)	697	-	(1,240)	(1,009)	-	-	1,009	-
24 Partners in Practice	-	-	-	(852)	(852)	-	(695)	-	(1,547)
25 Redundancy Reserves	(3,747)	-	-	-	(3,747)	-	-	3,747	-
26 King Street West	(561)	45	-	-	(516)	154	-	(994)	(1,356)
27 Managed Services	(2,284)	2,005	-	-	(279)	2,714	(3,891)	(7,835)	(9,291)
28 Corporate People Reserve	-	-	-	-	-	364	-	(4,000)	(3,636)
29 Corporate Technology & IT	-	-	-	-	-	-	-	(6,950)	(6,950)
30 Corporate Financial Resilience Reserve	-	-	-	-	-	-	-	(3,000)	(3,000)
31 Corporate Property Reserve	-	-	-	-	-	280	-	(4,076)	(3,796)
32 Other Funds	(8,339)	2,611	(1,249)	743	(6,234)	404	(859)	1,642	(5,047)
General Fund Reserves	(85,802)	16,473	(9,242)	(9)	(78,580)	8,602	(18,403)	(325)	(88,706)

4. Transfers to/from Earmarked Reserves (cont'd)

	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Movement Between Reserves 2016/17 £000	Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Movement Between Reserves 2017/18 £000	Balance at 31 March 2018 £000
General Fund Revenue Grants									
33 S106 - Revenue Schemes	(3,634)	581	(731)	-	(3,784)	606	(2,158)	-	(5,336)
34 Other Revenue Grants	(621)	85	(95)	9	(622)	-	(655)	324	(953)
Revenue Grants Sub-Total	(4,255)	666	(826)	9	(4,406)	606	(2,813)	324	(6,289)
General Fund Total	(90,057)	19,189	(10,068)	-	(82,986)	9,210	(21,218)	-	(94,994)
HRA Reserves									
35 HRA Efficiency Reserve	(1,411)	-	-	911	(500)	-	-	(792)	(1,292)
36 HRA Non-dwellings Impairment Reserve	(7,415)	-	153	-	(7,262)	-	72	-	(7,190)
37 HRA Strategic Regeneration and Housing Development	(3,250)	697	(1,655)	-	(4,208)	1,197	(3,402)	-	(6,413)
38 HRA Utilities Reserve	(5,511)	-	(2,663)	(1,208)	(9,382)	-	(1,368)	-	(10,750)
39 Welfare Reform Reserve	(1,500)	-	-	-	(1,500)	-	-	-	(1,500)
40 Parking Charges Review Reserve	(606)	-	-	-	(606)	-	-	-	(606)
41 Fire Safety Plus	-	-	-	-	-	-	(12,845)	-	(12,845)
42 Other HRA Funds	(3,102)	1,187	(249)	297	(1,867)	125	(118)	792	(1,068)
HRA Sub-Total	(22,795)	1,884	(4,414)	-	(25,325)	1,322	(17,661)	-	(41,664)
Total	(112,852)	21,073	(14,482)	-	(108,311)	10,532	(38,879)	-	(136,658)

4. Earmarked Reserves Description

1	Insurance Fund	this was established to underwrite a proportion of the Council's insurable risks.
2	Controlled Parking Fund	the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meet expenditure on transport and highways related activities.
3	Computer Replacement Fund	this is for the enhancement to the Council's IT systems required to meet existing commitments and future demands.
4	IT Infrastructure	this reserve has been set up for future IT improvement programmes.
5	Efficiency Projects Reserve	this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
6	Corporate Demand Pressures	To meet unbudgeted demands and pressures.
7	Dilapidations/Office Moves	this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
8	Housing Benefit	the completion of the audit of the housing benefit subsidy claim often results in a reduction in subsidy paid for the previous financial year. This reserve is used to meet the cost of any adjustments.
9	Planning Inquiries	this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
10	LPFA Sub Fund	this reserve has been set aside to cover a potential pensions liability to the LPFA.
11	Temporary Accommodation	this reserve has been set up to deal with possible shortfalls arising out of the introduction of a cap on rental income received for temporary accommodation.
12	ASC Pressures & Demands	this reserve is to address non-recurring new financial pressures within Adult Social Care.
13	Human Resources Reserve	this is a reserve to fund any requirements in relation to Human Resources.
14	Capital Reserves	this is a revenue-backed reserve to support capital expenditure and to provide bridging finance pending receipts of grants, etc.
15	Supporting People Programme	this reserve has been set up to enable the Supporting People programme to be managed over a rolling 3 year cycle in line with the contracts let with service suppliers.
16	MTFS Delivery Risk	this reserve is to mitigate the risks associated with the implementation of new MTFS projects.
17	VAT Reserve	this reserve is to cover costs incurred as a result of VAT related changes.
18	Business Board Reserve	this reserve is to fund projects approved by the HF Business Board.
19	TFM Reserve	The reserve represents additional costs on the contract due to a refresh of the service matrix- detailing buildings and service provision- and the potential need to fund additional expenditure as a result of changes in the apportionment of actual costs incurred across the three boroughs. The reserve also represents elective variable works, removals costs and ad hoc security costs that are not included in the fixed contract price.
20	3SIF Grant Reserve	this reserve is to support the Third Sector Investment Fund medium term allocation plan.
21	Troubled Families	This reserve has been created to carry forward funding that has already been earned, but not spent, into Year 3 of the project in order to fund the costs associated with running the programme.
22	NDR Deficit Support	this is a reserve to smooth the impact of statutory timing differences between funding and impact NDR deficits.
23	Stock Options Appraisal	this is a reserve to address the potential outcomes of the Stock Options Appraisal.
24	Partners in Practice	this is a reserve for Children's Services social care practice improvement as part of DFE innovation programme.
25	Redundancy Reserves	these reserves were set up to cover any redundancy costs.
26	King Street West	this is held to fund the costs of implementing the King Street West redevelopment.
27	Managed Services	this reserve is used to fund the cost of implementing the Managed Services project.
28	Corporate People Reserve	this is the consolidation of various Human Resource related reserves.
29	Corporate Technology & IT	this reserve is used to finance council IT projects.
30	Corporate Financial Resilience Reserve	this reserve is to cover the costs of providing financial resilience across the council.
31	Corporate Property Reserve	this is to be used to cover the one-off costs related to LBHF property management.
32	Other Funds	this comprises a number of smaller reserves, generally not exceeding £500k.
33-	Revenue Grants	These reserves exist to fund various projects and potential future commitments these are grants which have been transferred as an earmarked reserve due to the

34		implementation of International Financial Reporting Standards (IFRS).
35	HRA Efficiency Reserve	this reserve is to provide funding for the one-off costs associated with implementing MTFs savings.
36	HRA Non-Dwellings Impairment Reserve	this reserve comprises revaluation gains on HRA non-dwellings and should therefore be considered akin to the revaluation reserve. On this basis it has been included in the Council's Capital Financing Requirement (CFR) calculation. Any use of this reserve for purposes other than smoothing capital charges would therefore adversely affect the CFR
37	HRA Strategic Regeneration and Housing Development	this reserve is to provide for the risk associated the council's strategy and regeneration and housing development initiatives.
38	HRA Utilities Reserve	this reserve is to cover the potential impact of applying OFWAT "Water resale order" under which water charges to tenants must be set to equal expenditure incurred by LBHF on a property by property basis.
39	Welfare Reform Reserve	this is a reserve to provide for the further and continuing impact of Welfare Reform.
40	Parking Charges Review Reserve	this reserve is to cover the potential need to refund parking charges on HRA properties.
41	Fire Safety Plus	this reserve was created for reviewing fire safety across the borough.
42	Other HRA Funds	this reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2017/18

Revaluations: HRA Dwellings have been revalued downwards in year. The downward revaluation is approximately 2% however the size of the asset base means that this revaluation is a material amount. The gross revaluation decrease, recognised across CIES and Revaluation Reserve is £41.550m.

In contrast Other Land and Buildings (OLB) have increased in value in year. This is substantially due to changes in the estimation techniques used to arrive at depreciated replacement cost (DRC) valuations. This includes updated build cost and location factors - as prescribed by the Royal Institute of Chartered Surveyors (RICS) - and a revised approach used by the external valuer to arrive at obsolescence factors and land values. The revaluation increase of OLB recognised across CIES and Revaluation Reserve is £61.896m.

Transactions in 2016/17

Pension Liability: Following the triennial revaluation the net pensions liability has increased by £184m. A complete analysis of this increase is set out in Note 27.

Revaluations: HRA Council Dwellings have been valued downward by a net £8.00m. This revaluation loss is divided between a gross loss in the Comprehensive Income and Expenditure Statement (CIES) of £15.13m and a gross gain in the Revaluation Reserve of £7.13m.

School Academy Transfers: Four local authority maintained schools converted to Academy status in year, resulting in the transfer of land and buildings with a net book value of £45.7m. These are detailed below.

	2016/17
	£'000
Phoenix High	24,519
Queen's Manor Primary	7,515
Fulham Primary	7,498
Sullivan Primary	6,122
Total	45,654

These Academy transfers have been reflected as disposal losses in the Council's accounts. These are included in the (gains)/losses on disposal as disclosed in note 6. The disclosure in note 6 also includes gains from the sale of other assets hence the net total of £38.756m.

6. Other Operating Expenditure

	2017/18	2016/17
	£000	£000
Levies	2,791	2,838
Payments to the Government Housing Capital Receipts Pool	2,664	781
(Gains)/losses on the disposal of non-current assets	(7,327)	38,756
Other Operating Income and Expenditure	788	(823)
Total	(1,084)	41,552

7. Financing and Investment Income and Expenditure

	2017/18	2016/17
	£000	£000
Interest payable and similar charges	11,987	12,775
Net interest on the net defined benefit liability (asset)	18,264	17,288
Interest receivable and similar income	(1,540)	(1,431)
Income and expenditure in relation to investment properties and changes in their fair value	480	(958)
Schools converted to Academy Status	-	677
Total	29,191	28,351

8. Taxation and non-specific grant income and expenditure

	2017/18	2016/17
	£000	£000
Non-domestic rates income	(64,382)	(59,101)
NDR safety net	(5,295)	-
Business rates tariff	18,059	2,961
Non-domestic rates income and expenditure	(51,618)	(56,140)
Council Tax Income	(55,438)	(55,767)
Non-ringfenced government grants	(49,534)	(53,821)
Capital grants and contributions	(13,368)	(14,191)
Total	(169,958)	(179,919)

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2017/18

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2017	1,304,063	294,427	210,774	13,539	25,744	34,585	3,419	1,886,551	18,225
Additions	35,007	6,074	8,095	703	777	2,532	546	53,734	-
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(10,754)	57,326	-	-	-	(2,175)	-	44,397	6,567
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(46,926)	(202)	-	-	-	(2,137)	-	(49,265)	-
Derecognition – disposals	(2,924)	(1,885)	-	-	-	(5,880)	-	(10,689)	-
Derecognition – other	(335)	-	-	-	-	-	(253)	(588)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	389	-	389	-
Assets reclassified (to)/from Investment Properties	-	409	-	-	-	-	-	409	-
Other reclassifications	(6,033)	763	-	-	-	6,975	(1,705)	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-	-
At 31 March 2018	1,272,098	356,912	218,869	14,242	26,521	34,289	2,007	1,924,938	24,792
Accumulated Depreciation and Impairment									
At 1 April 2017	-	(449)	(118,040)	(10,787)	(10,548)	-	-	(139,824)	-
Depreciation charge	(16,261)	(5,125)	(11,733)	(673)	(1,989)	(147)	-	(35,928)	(343)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,984	4,772	-	-	-	60	-	9,816	343
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	11,146	-	-	-	-	74	-	11,220	-
Derecognition – disposals	41	46	-	-	-	103	-	190	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	90	-	-	-	-	(90)	-	-	-
At 31 March 2018	-	(756)	(129,773)	(11,460)	(12,537)	-	-	(154,526)	-
Net Book Value									
at 31 March 2018	1,272,098	356,156	89,096	2,782	13,984	34,289	2,007	1,770,412	24,792

9. Property, Plant and Equipment (cont'd)

Movements in 2016/17

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2016	1,295,997	331,898	201,610	12,312	24,795	34,035	2,730	1,903,377	17,649
Additions	42,417	6,412	9,164	1,227	949	32	1,330	61,531	-
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(3,390)	5,755	-	-	-	(51)	-	2,314	576
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,061)	(5)	-	-	-	(6)	-	(26,072)	-
Derecognition – disposals	(4,900)	(49,058)	-	-	-	-	(95)	(54,053)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-	-	-
Other reclassifications	-	(575)	-	-	-	575	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	(546)	(546)	-
At 31 March 2017	1,304,063	294,427	210,774	13,539	25,744	34,585	3,419	1,886,551	18,225
Accumulated Depreciation and Impairment									
At 1 April 2016	-	(677)	(106,340)	(9,909)	(8,662)	-	-	(125,588)	-
Depreciation charge	(21,498)	(5,622)	(11,700)	(878)	(1,886)	(139)	-	(41,723)	(318)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,515	4,028	-	-	-	137	-	14,680	317
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,930	1,045	-	-	-	2	-	11,977	1
Derecognition – disposals	53	777	-	-	-	-	-	830	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
At 31 March 2017	-	(449)	(118,040)	(10,787)	(10,548)	-	-	(139,824)	-
Net Book Value									
at 31 March 2017	1,304,063	293,978	92,734	2,752	15,196	34,585	3,419	1,746,727	18,225

9. Property, Plant and Equipment (cont'd)

(ii) Depreciation and Useful life

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Council Dwellings	5 - 60 years
Other Land and Buildings and Surplus Assets (Building element only - land not depreciated)	15 - 50 years
Infrastructure Assets	3 - 40 years
Vehicles, Plant, Furniture & Equipment	4 - 25 years
Community Assets	5 - 73 years

(iii) Effect of Changes in Estimates

The estimation technique used to arrive at Other Land and Buildings valuations has been revised in year. The effect of this change has been set out in note 5.

(iv) Revaluation and Impairments

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued through full inspection at least every four years. The Authority has used the external valuation contractor Wilks Head & Eve to carry out the valuations under instruction from the authority's internal Valuation and Property Services. Rolling programme values are reviewed internally to ensure they are not materially misstated at balance sheet date. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations have an effective date of 31 March 2018.

The significant assumptions applied in estimating the current values are:

- Valuations of owner occupied properties reflect special adaptations or particular suitability of the premises for the existing use, but specifically exclude, so far as possible value attributable to goodwill and alternative uses.
- No allowance has been made for any national or local tax whether existing or which may arise in the future.
- All properties except Housing Dwellings have been valued on an individual basis, thus envisaging that they will be marketed individually or in groups over an appropriate period of time.
- Except where specific information is available, properties have been properly maintained and are in good repair and condition.

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carrying value under Cost Model	1,435,589	233,272	89,096	2,782	13,984	21,174	2,007	1,797,904
Carried at Historical Cost	-	-	89,096	2,782	13,984	-	2,007	107,869
Valued at current value as at:								
31 March 2018	1,272,098	332,085	-	-	-	34,289	-	1,638,472
31 March 2017	-	10,014	-	-	-	-	-	10,014
31 March 2016	-	7,514	-	-	-	-	-	7,514
31 March 2015	-	6,543	-	-	-	-	-	6,543
	1,272,098	356,156	89,096	2,782	13,984	34,289	2,007	1,770,412

9. Property, Plant and Equipment (cont'd)

(iv) Revaluation and Impairments continued

The Council values its dwellings in accordance with the proper practice set out in the Government guidance "*Stock Valuation for Resource Accounting: Guidance for Valuers - 2016*". Under the requirements of the "beacon system" of valuation and 75 per cent discount applied to the open market valuation of the dwellings using the "Existing Use Valuation - Social Housing" methodology, the Council's capital expenditure on its dwelling stock does not increase the value of the assets on a pound-for-pound basis; at best the value of a dwelling will be increased by only 25 per cent of the capital expenditure incurred upon it.

Desk-top revaluation of housing dwellings stock as at 31 March 2018 was commissioned by the Council and completed by the external valuer Wilks, Head and Eve. A revaluation based on full inspection of housing dwellings stock is scheduled for 2020/21.

Where assets are revalued downwards and revaluation losses are in excess of the available Revaluation Reserve, balances are debited to the Surplus or Deficit on the Provision of Services. A review of property, plant and equipment was carried out for 2017/18 and there were no cases of impairment of assets to report.

Following the 2016 DCLG consultation on a draft Item 8 Credit and Debit Determination to cover the HRA accounting post-transition, CIPFA confirmed in May 2017 that impairment and valuation losses not covered by Revaluation Reserve in relation to **HRA dwellings** - are charged to the HRA Income & Expenditure Statement but will continue to be reversible through a transfer to the Capital Adjustment Account (CAA) via the Movement in Reserves Statement (MIRS). Valuation gains in relation to HRA dwellings, where taken to the HRA income and expenditure statement, can also be reversed under the Determination, by a transfer to the CAA via the Movement in Reserves statement. The previous Determination was silent on this issue.

Impairment and valuation losses not covered by revaluation reserve in relation to HRA non-dwellings can now be reversed in the same way as losses for dwellings. This is a change, as under transition any such losses for non-dwellings could not be reversed and therefore impacted on the HRA balance in full. This change applies prospectively from 1 April 2017 only. As with dwellings, valuation gains for non-dwellings, where taken to the HRA income and expenditure statement, can also be reversed under the new Determination, again by a transfer to the CAA via the Movement in Reserves statement.

(v) Capital Commitments

The total of material capital commitments at the balance sheet date were as follows:

	31 March 2018	31 March 2017
Service Department	£000	£000
Housing Revenue Account	8,245	10,845
Children's Services	1,801	4,078
	10,046	14,923

10. Investment Properties

The following items of income and expense have been accounted for in the Comprehensive Income and Expenditure Statement:

	2017/18	2016/17
	£000	£000
Rental income from investment property	(6,425)	(5,832)
Direct operating expenses (including repairs and maintenance) arising from investment properties	115	102
Net (gain)/loss	(6,310)	(5,730)

(i) Revaluation

In 2017/18 the Council commissioned a full revaluation of its investment properties including an inspection of each property where appropriate as at the balance sheet date of 31 March 2018. The work was undertaken by our independent external valuers - Wilks Head & Eve, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). The valuation bases are in accordance with the Statement of Asset Valuation Practices and Guidance Notes of RICS.

10. Investment Properties (cont'd)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The following table summarises the movement in the fair value of investment properties over the year:

	31 March 2018 £000	31 March 2017 £000
Balance at start of the year	81,744	80,940
Additions:		
• Subsequent expenditure	15	13
Disposals	(471)	(167)
Net gains/(losses) from fair value adjustments	(480)	958
Transfers:		
• (to)/from Property, Plant and Equipment	(409)	-
• (to)/from Assets Held for Sale	3,500	-
Balance at end of the year	83,899	81,744

(ii) Fair Value Hierarchy

All the Council's investment properties have been assessed as Level 2 on fair value hierarchy for valuation purposes (see Note 38 Accounting Policies for an explanation of the fair value levels).

11. Heritage Assets

(i) Movement on Balances

	Art Collections £000	Books & Printed Materials £000	Ceramics & Glass £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation					
At 1 April 2017	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2018	7,688	131	118	86	8,023

There have been no movements on Heritage Assets in 2017/18. Further information concerning heritage assets and their valuation can be found in previous Statement of Accounts as published on the Council's website:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/statement_of_accounts_2011-12.pdf

12. Assets Held for Sale

All Assets Held for Sale have been classified as Current as sales are expected within 12 months from the Balance Sheet date.

	31 March 2018 £000	31 March 2017 £000
Balance outstanding at start of year	4,435	3,889
Additions:		
Assets newly classified as held for sale:		
• Property, Plant and Equipment	-	546
Assets declassified as held for sale:		
• Property, Plant and Equipment	(389)	-
• Investment Properties	(3,500)	-
Assets sold	(546)	-
Balance outstanding at year-end	-	4,435

13. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2017/18	2016/17
	£000	£000
Opening Capital Financing Requirement	272,544	267,577
Capital Investment		
Property, Plant and Equipment	53,734	61,531
Investment Properties	15	13
Revenue Expenditure Funded from Capital under Statute	19,806	8,912
Capital Funding of third-party capital loans	-	345
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(22,345)	(25,085)
Government grants and other contributions	(42,905)	(32,786)
Sums set aside from revenue:		
Direct revenue contributions	(1,755)	(7,132)
MRP/loans fund principal	(605)	(618)
Deferred costs of capital disposals	(783)	(213)
Closing Capital Financing Requirement	277,706	272,544
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	6,008	5,068
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(63)	(63)
Debt Resettlement (HRA)	-	-
Voluntary application of Capital Receipts to repay debt	-	-
Increase/(Decrease) in Deferred costs of capital disposals	(783)	(213)
Assets acquired under finance leases	-	175
Increase/(decrease) in Capital Financing Requirement	5,162	4,967

14. Leases (Finance and Operating)

Council as Lessee

Finance Leases

The Council is not engaged in any material Finance Leases as a Lessee.

Operating Leases

The Council has acquired some office accommodation, hostels, depot facilities and a range of vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under these non-cancellable leases in future years are:

	31 March 2018 £000	31 March 2017 £000
Not later than one year	1,810	1,035
Later than one year and not later than five years	6,692	3,812
Later than five years	12,645	9,741
	21,147	14,588

The Council has sub-let some of the accommodation held under these leases. At 31 March 2018 the minimum income expected to be received under sub-leases was £2.937m.

The expenditure charged to the service revenue accounts during the year in relation to these leases was:

	31 March 2018 £000	31 March 2017 £000
Minimum lease payments	1,775	1,062
Contingent rents	-	19
Sublease payments receivable	-	(70)
	1,775	1,011

Council as Lessor

Finance Leases

The Council is not engaged in any material Finance Leases as a Lessor.

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, day centres and community centres
- for economic development purposes providing suitable affordable accommodation for local businesses
- as an investment to make the use of the Council's assets

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2018 £000	31 March 2017 £000
Not later than one year	4,612	2,321
Later than one year and not later than five years	15,387	6,180
Later than five years	16,481	6,340
	36,480	14,841

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. No material contingent rents were receivable by the Council.

15. Private Finance Initiative

2017/18 was the thirteenth year of a 25-year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created three new nursing homes (one of which was completed one year later than the other two). Hammersmith & Fulham Clinical Commissioning Group also share the services provided at these sites through a back-to-back agreement with the Council.

At the end of the contract ownership of the homes reverts to the Council. A Memorandum of Understanding was agreed in 2015/16 to rebase the Unitary Charge and to clarify that payments are adjusted annually for CPI. The Memorandum does not change any other significant aspect of the contract.

Property Plant and Equipment

The assets used to provide services at the residential care and nursing homes and sheltered accommodation are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 9.

Payments

The Council makes an agreed payment each year (Unitary Charge) which is adjusted each year by inflation, and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. The annual Unitary Charge has been split into service charge, liability and interest.

Payments remaining to be made under the PFI contract at 31 March 2018 (excluding the effect of changes in market conditions and availability/performance deductions) are as follows:

	Payment for Services £000	Liability £000	Interest £000	Total £000
Payable in 2018/19	5,328	272	1,144	6,744
Payable within two to five years	22,340	1,515	4,150	28,005
Payable within six to ten years	30,353	3,442	3,639	37,434
Payable within eleven to fifteen years	15,276	2,704	754	18,734
	73,297	7,933	9,687	90,917

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2017/18 £000	2016/17 £000
Balance outstanding at start of year	8,173	8,384
Payments during the year	(240)	(211)
Balance outstanding at year-end	7,933	8,173

16. Debtors

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	12,089	11,188
Other local authorities	7,731	14,421
NHS bodies	1,559	1,872
Public corporations and trading funds	8	-
Other entities and individuals	34,668	25,799
Total	56,055	53,280

17. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March	31 March
	2018	2017
	£000	£000
Cash held by the Council	306	420
Bank current accounts	48	238
School bank accounts	12,020	9,377
Short-term deposits	83,875	44,798
Total	96,249	54,833
Bank overdraft*	(13,375)	(2,150)
	(13,375)	(2,150)
Net Cash and Cash Equivalents	82,874	52,683

*The year-end bank overdraft reflects the bank position including all outstanding and unrepresented items. LBHF does not operate a physical bank overdraft as part of its cash management policy. This presentation is a technical requirement under IFRS.

18. Creditors

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	(23,348)	(29,513)
Other local authorities	(22,515)	(29,007)
NHS bodies	(3,994)	(6,759)
Other entities and individuals	(122,310)	(97,088)
Total	(172,167)	(162,367)

19. Other Long Term Liabilities

	31 March	31 March
	2018	2017
	£000	£000
Net Pensions Liability	(664,989)	(692,411)
Long Term Lease Liability	(7,785)	(8,157)
TOTAL	(672,774)	(700,568)

20. Provisions

	Insurance	NDR - Losses on Appeals	Other Provisions	Total
	£000	£000	£000	£000
Balance at 1 April 2016	(2,532)	(10,144)	(303)	(12,979)
Additional provisions	(124)	-	(753)	(877)
Amounts used	-	4,935	-	4,935
Unused amounts reversed	-	492	309	801
Balance at 31 March 2017	(2,656)	(4,717)	(747)	(8,120)
Additional provisions	-	(12,259)	(226)	(12,485)
Amounts used	-	9,892	-	9,892
Unused amounts reversed	626	-	9	635
Balance at 31 March 2018	(2,030)	(7,084)	(964)	(10,078)
<i>Of which:</i>				
Next twelve months	(2,030)	(7,084)	(780)	(9,894)
Over twelve months	-	-	(184)	(184)
Balance at 31 March 2018	(2,030)	(7,084)	(964)	(10,078)

Following the introduction of the new Business Rates Retention Scheme by Central Government on 1 April 2013, the Council must account for its share of Non-Domestic Rates assets and liabilities. As a result of this, the Council has been exposed to a significant number of outstanding ratings appeals, the estimated liability for this has been included in the table above.

The Council's insurance provision (held for known future insurance claims resulting from the Council's self-insurance of liability risks and fire damage) received a full actuarial assessment of the Insurance Fund position as at 31 March 2017. The next actuarial review is being undertaken in 2020/21. The provision is based upon updated professional estimates of continuing open claims identified in that year's assessment. It also reflects claims currently received for which payment is expected in the next 12 months.

During 1992/93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. The scheme of arrangement was triggered in 2012/13 and the Council was required to pay a levy of £0.426m in 2013/14, for which a provision was made in 2012/13 accounts; representing 15% of claims payments made to date. MMI in setting this 15% levy chose a mid-point based upon an actuarial analysis of potential future losses with the aim of ensuring a solvent run off of current losses and those yet to emerge. This means the Council will be required to fund 25% of all payments for any newly reported losses during the period of MMI policy coverage prior to 1993. The Council has sufficient funds in its Insurance reserve to cover this exposure.

Other provisions include amounts to cover HRA disputed invoices and disrepair case and smaller provisions.

21. Financial Instruments

(i) Financial Instruments - Balances

The following categories of financial instruments are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Financial Assets:				
Investments - Loans and Receivables	17,695	195	208,273	78,022
Investments - Available for sale financial assets	-	-	30,156	201,456
Cash & cash equivalents	-	-	82,874	52,683
Long Term Debtors	1,330	1,384	-	-
Trade Debtors	-	-	65,090	61,440
Total	19,025	1,579	386,393	393,601
Financial Liabilities : Measured at amortised cost				
Borrowings	(213,101)	(217,661)	(7,040)	(10,052)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(4,656)	(4,638)
Total	(213,201)	(217,761)	(11,696)	(14,690)
Other Liabilities:				
PFI & Finance Lease liabilities	(8,058)	(8,397)	(340)	(307)

Note 1 – Under accounting requirements the carrying value of the financial instrument is shown in the balance sheet which includes the principal amount borrowed or lent including accrued interest.

Note 2 – Fair value has been measured by direct reference to published price quotations in an active market.

The amounts for trade debtors and creditors are the values identified in Notes 16 and 18 to the accounts gross of any allowance for bad debts, see paragraph on Credit Risk below, but excluding outstanding balances to/from Government Departments, debts arising from taxation demands and monies received or paid in advance. Further analysis of PFI and Finance Lease liabilities is given in Notes 14 and 15.

(ii) Reclassifications

No financial instruments have been reclassified between valuation at amortised cost and valuation at fair value during 2017/18 or previous years.

21. Financial Instruments (cont'd)**(iii) Income, Expense, Gains and Losses**

	2017/18				2016/17			
	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale Assets £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale Assets £000	Total £000
Interest expense	11,987	-	-	11,987	12,775	-	-	12,775
Losses on derecognition	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	11,987	-	-	11,987	12,775	-	-	12,775
Interest income	-	(1,028)	(512)	(1,540)	-	(197)	(1,234)	(1,431)
Increases in fair value	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	(1,028)	(512)	(1,540)	-	(197)	(1,234)	(1,431)
Net gain/(loss) for the year	11,987	(1,028)	(512)	10,447	12,775	(197)	(1,234)	11,344

21. Financial Instruments (cont'd)

(iv) Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term investments are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Public Works Loan Board (PWLB) loans have been valued using the standard new loan rates published by the Debt Management Office (DMO) on 31 March 2018.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- The fair value of trade debtors and creditors are taken to be the invoiced amounts.
- The fair value of cash, overdrafts and other cash equivalents is taken to be the carrying value.

The balance of mortgages (£0.053m as at 31 March 2017) due to the council has been repaid during 2017/18 so long term debtors at 31 March 2018 does not contain any mortgages.

£0.1m of the long term investment at 31 March 2018 (£0.1m at 31 March 2017) shown in section (i) relates to the Council's investment in the GLE Group matched by the long term creditor of the same amount. Again as any difference in values would be insignificant the fair value is taken to be the carrying value for both the investment and the liability.

The fair values calculated for the remaining instruments which consist of the Council's borrowings and investments (excluding any Cash or Cash Equivalents) are as follows:

	31 March 2018		31 March 2017	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
<u>Borrowings</u>				
PWLB Debt	(217,405)	(290,629)	(224,822)	(304,095)
Total	(217,405)	(290,629)	(224,822)	(304,095)
Financial Assets				
<u>Loans and receivables</u>				
Money market loans less than one year	208,273	208,273	60,128	60,128
Money market loans greater than one year	17,500	17,500	-	-
Available for Sale less than one year	30,156	30,156	204,702	204,702
Available for Sale greater than one year	-	-	-	-
Total	255,929	255,929	264,830	264,830

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB certainty rate as the discount factor, if the premature repayment rate were to be used the fair value would be **£334.197m** as at 31 March 2018 (£350.054m at 31 March 2017.)

The fair value for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB standard new loan rates at each Balance Sheet date. They include accrued interest.

At 31 March 2018, all money market loans and receivables are repayable within two years. Therefore, the carrying amount is assumed to be approximate fair value; the figure for both years includes accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

21. Financial Instruments (cont'd)

Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks as follows:

- **credit risk** - the possibility that other parties might fail to pay amounts due to the Council
- **liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments
- **re-financing risk** - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms
- **market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and the associated regulations. These require the Council to comply with CIPFA's Prudential Code and Code of Practice on Treasury Management in the Public Services together with investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice on Treasury Management in the Public Services;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting the Council's:
 - overall borrowing;
 - maximum and minimum exposures to fixed and variable rates;
 - maximum and minimum exposures for the maturity structure of its debt;
 - maximum annual exposures to investments maturing beyond a year; and
- by approving an investment strategy for the forthcoming year that sets criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Council's Council Tax is set and Revenue Budget approved. These items are reported within the Annual Treasury Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

These policies are implemented by the treasury team. The Council maintains written principles for overall risk management and written policies (Treasury Management Practices – TMPs) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria. Additional selection criteria are also applied following the application of the initial credit criteria.

The Council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparty in relation to outstanding deposits or non investment activity related financial instrument.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures set out above and through cash flow management procedures required by the Code of Practice on Treasury Management in the Public Services. This seeks to ensure that cash is available when needed.

21. Financial Instruments (cont'd)

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow needs, while the PWLB provides access to longer term funds, it also acts as a lender of last resort to local authorities (although it will not provide funding to an authority whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

Exposure to customers is assessed by reference to past experience, age of debt, and stage of recovery process. Details of these debts are reported in **Note 16**. The sums shown are net of a prudent allowance for their impairment amounting to **£49.27 million** at 31 March 2018 (£45.82 million at 31 March 2017). The council does not normally allow credit for its customers.

The past due but not impaired amount can be analysed by age as follows:

	31 March 2018	31 March 2017
	£000	£000
Less than three months	33,500	33,271
Three to six months	1,799	1,379
Six months to one year	8,909	4,348
More than one year	20,882	22,442
	65,090	61,440

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. While the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk. The Council's treasury and investment strategies address the main risks and the treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of **financial liabilities** is as follows:

	31 March	31 March
	2018	2017
	£000	£000
Less than one year	(7,040)	(10,052)
Between one and two years	(9,699)	(4,564)
Between two and five years	(11,410)	(21,109)
Between five and ten years	(29,952)	(25,673)
More than ten years	(161,779)	(166,058)
Total	(219,880)	(227,456)

21 Financial Instruments (cont'd)

The maturity analysis of **financial assets** is as follows:

	31 March 2018 £000	31 March 2017 £000
Less than one year	238,429	279,478
Between one and two years	17,500	-
Between two and three years	-	-
More than three years	1,525	1,579
Total	257,454	281,057

The above tables exclude trade payables and receivables and cash and cash equivalents all of which are due to be paid/received within one year.

Market risk

Interest Rate Risk: The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument durations. For instance, a rise in variable and fixed interest rates would have the following effects:

- *Borrowing at variable rates:* the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- *Borrowing at fixed rates:* the fair value of the borrowing liability will fall (no impact on revenue balances)
- *Investments at variable rates:* the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- *Investments at fixed rates:* the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments is posted to the Surplus or Deficit on the Provision of Services and affects the General Fund balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The Strategy sets a treasury indicator that provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team monitors market and forecast interest rates within the year and adjusts exposure appropriately. For instance, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

Price risk: the Council, excluding the Pension Fund, does not generally invest in equities or marketable bonds.

Foreign exchange risk: the Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movement in exchange rates.

22a. Cash Flow Statement - Net Cash Flow from Operating Activities

	2017/18 £000	2016/17 £000
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(33,321)	(17,537)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	36,123	41,920
Impairments and revaluations	38,524	13,137
Value of non-current assets derecognised on disposal	11,560	53,389
Value of 'Assets Held for Sale' derecognised on disposal	546	-
Assets transferred to/(from) Assets Held for Sale	(3,889)	546
Net adjustment made in respect of IAS 19 (Pensions)	25,705	17,196
Revaluations of Available for Sale Financial Assets	2,820	(1,755)
Amortisation of Premia and Discounts	4	4
Impairment of Financial Instruments	-	-
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	(2,986)	21,235
add/less: (Increase)/decrease in Capital Debtors	(481)	329
(Increase)/decrease in Long-term Debtors	54	253
Increase/(decrease) in short-term Creditors*	17,767	(1,836)
add/less: Increase/(decrease) in Capital Creditors	(2,321)	(1,580)
Assets transferred to 'Assets Held for Sale'	3,889	(546)
(Increase)/decrease in Inventories	(1)	(14)
Increase/(decrease) in Provisions	1,958	(4,859)
Increase/(decrease) in Grants and Contributions Receipts in Advance	6,055	(3,734)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	102,006	116,148

*Excluding movements in the Collection Fund Debtors/Creditors with precepting authorities and the short-term element of Finance Leases and PFI's which are included on the face of the cashflow statement.

22b. Cash Flow Statement - Operating Activities

The cash inflows/(outflows) for operating activities include the following:

	2017/18 £000	2016/17 £000
Interest Received	1,420	1,937
Interest Paid	(10,918)	(11,678)

23. Agency Services

The Council acts as agent under agreements with various bodies and receives financial reimbursement for the costs of such services from the bodies concerned. In some cases the Council makes a small surplus or deficit on these agreements through commission or reimbursement of costs. These surpluses or deficits are included within the relative service lines in the CIES. Bodies with whom we have these agency agreements include Thames Water, Transport for London, and various Academies in the borough.

24. Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

	2017/18	2016/17
	£000	£000
Members' Allowances	775	821

25. Officers' Remuneration

This note shows the remuneration as paid through the Council's payroll to the Council's Chief Executive, Statutory Chief Officers, members of the Senior Leadership Team (i.e. those reporting to the Chief Executive) and employees with salaries over £150,000.

Role	In Post	Notes	FY	Salary, Fees and Allowances	Bonuses*	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
				£	£	£	£	£	£
Chief Executive	Kim Dero	1	2017/18	158,020	7,901	-	-	25,374	191,295
			2016/17	120,532	14,950	791	-	18,493	154,765
Lead Director Regeneration, Planning & Housing	Jo Rowlands		2017/18	128,820	6,441	-	-	20,695	155,956
			2016/17	73,505	9,340	-	-	12,230	95,076
Shared Services Executive Director of Adult Social Care for LBHF, RBKC and WCC	Sue Redmond	2	2017/18	103,157	-	-	-	14,280	117,437
			2016/17	-	-	-	-	-	-
Director of Adult Social Care	Lisa Redfern	3	2017/18	80,679	4,034	-	-	8,356	93,070
			2016/17	-	-	-	-	-	-
Strategic Director of Finance and Governance (Section 151 Officer)	Hitesh Jolapara		2017/18	134,477	6,724	250	-	21,604	163,055
			2016/17	125,851	13,844	866	-	18,872	159,433
Commercial Director	Michael Hainge		2017/18	107,060	5,353	239	52,654	17,199	182,506
			2016/17	105,851	7,410	790	-	15,846	129,897
Director of Delivery and Value	Sarah Thomas	4	2017/18	96,094	4,969	-	-	15,463	116,525
			2016/17	22,995	-	-	-	3,104	26,099
Director of Environmental Health	Nick Austin	5	2017/18	112,874	5,644	-	-	18,133	136,651
			2016/17	104,615	9,767	32	-	16,159	130,573
Director of Human Resources	Debbie Morris	6	2017/18	29,005	-	-	-	4,438	33,443
			2016/17	112,333	12,883	213	-	17,642	143,071
Director of HR & OD	Mark Grimley	7	2017/18	10,417	-	-	-	1,594	12,010
			2016/17	-	-	-	-	-	-
Director of Public Service Reform	Rachael Wright-Turner	8	2017/18	48,683	-	-	-	7,449	56,132
			2016/17	-	-	-	-	-	-
Director of Childrens Services	Steve Miley	9	2017/18	119,849	5,992	-	-	19,254	145,095
			2016/17	103,877	11,533	-	-	15,580	130,990

* The 2017/18 bonuses are currently based on estimates and will be updated once finalised.

Notes

1	The current Chief Executive has been in post since 1 April 2017. The Chief Executive received £3,976 in relation to her election duties for the general election which is not included in the amounts disclosed in the table.
2	This post was deleted on 31 October 2017 due to the decision to exit the Tri-borough arrangement for Adult Social Care. It was replaced by the Director of Adult Social Care - a post solely responsible for LBHF operations.
3	This post was created during 2017/18 as a result of the decision to exit the Tri-borough arrangement for Adult Social Care. The post was filled from 1 August 2017.
4	The Director of Delivery and Value was covered on an interim basis between 8 May 2017 to 15 February 2018. The post was deleted after 15 February 2018.
5	The Director of Environmental Health received £275 in relation to his election duties for the general election which is not included in the amounts disclosed in the table.
6	This post was deleted during 2017/18 as a result of the decision to exit the Bi-borough arrangement for Human Resources. It was replaced by the Director of Human Resources & Organisational Development - a post solely responsible for LBHF operations.
7	This post was created as a result of the decision to exit the Bi-borough arrangement for Human Resources. The post was a permanent appointment from 1 March 2018.
8	This post was created during 2017/18 as a result of the decision to exit the Tri-borough arrangements for Public Health, Adult Social Care and Children's Services. It has been filled since 13 November 2017.
9	This post was created during 2017/18 as a result of the decision to exit The Tri-borough arrangement for Children's Services. It has been filled since 7 August 2017.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions and including redundancy payments) were paid the following amounts. These numbers do not include senior employees shown in the previous table:

Remuneration Band	2017/18	2016/17
	Number of Employees	Restated* Number of Employees
£175,000 - £179,999	1	0
£170,000 - £174,999	0	0
£165,000 - £169,999	0	0
£160,000 - £164,999	0	0
£155,000 - £159,999	0	0
£150,000 - £154,999	0	0
£145,000 - £149,999	0	0
£140,000 - £144,999	0	0
£135,000 - £139,999	0	0
£130,000 - £134,999	0	0
£125,000 - £129,999	1	1
£120,000 - £124,999	0	1
£115,000 - £119,999	2	1
£110,000 - £114,999	4	3
£105,000 - £109,999	1	5
£100,000 - £104,999	1	0
£95,000 - £99,999	7	5
£90,000 - £94,999	4	5
£85,000 - £89,999	9	5
£80,000 - £84,999	14	21
£75,000 - £79,999	28	15
£70,000 - £74,999	7	7
£65,000 - £69,999	23	17
£60,000 - £64,999	30	23
£55,000 - £59,999	60	57
£50,000 - £54,999	118	104
Total	310	270

Of the 310 employees listed in 2017/18, 92 (30%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2016/17 was 83 (31%).

* The 2016/17 numbers were restated due to an amendment in the senior employees note.

25. Officers' Remuneration (cont'd)

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of packages by cost band		Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£0 - £20,000	30	44	2	42	32	86	288,135	658,097
£20,001 - £40,000	14	8	-	15	14	23	397,142	614,863
£40,001 - £60,000	3	-	-	2	3	2	138,988	92,115
£60,001 - £80,000	2	-	-	1	2	1	126,772	65,174
£80,001 - £100,000	1	-	-	3	1	3	89,779	277,369
Over £100,001	-	-	-	-	-	-	-	-
Total	50	52	2	63	52	115	1,040,816	1,707,618

This includes exit packages agreed by School Governing Bodies. Exit packages include the accrued cost of added years (the pension strain). These costs are not paid to individuals but reflect the cost to the Council of the employee retiring early, without actuarial reduction of their pension.

26. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £3.75 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £4.07 million and 16.48%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2017/18 the costs arising from additional benefits amounted to £0.301m (2016/17: £0.335m).

27. Defined Benefit Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the following post employment schemes:

- The Local Government Pension Scheme administered locally by London Borough of Hammersmith and Fulham (LBHF LGPS).
- The Local Government Pension Scheme administered by London Pensions Fund Authority (LPFA LGPS).

The schemes are funded defined benefit salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme to 31 March 2014 provided benefits based on final salary and length of service on retirement. Changes to the LGPS came into effect on 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary, with various protections in place for those members in the scheme before the changes took effect.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

- Investment risk. The Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Pension Funds, there is an orphan risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Council e.g. higher than expected investment returns.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments when they eventually fall due.

27. Defined Benefit Schemes (cont'd)

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

	LBHF Local Government		LPFA Local Government	
	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000
		Restated*		Restated*
Comprehensive Income and Expenditure Statement				
<i>Cost of Services:</i>				
• current service costs	30,610	19,812	151	154
• past service costs including curtailments	1,268	647	-	-
• (gain)/ loss from settlements	(3,701)	(849)	-	-
• administration expenses	614	614	59	52
• unfunded pension payments	(2,355)	(2,389)	(33)	(33)
• employer's pension contributions adjustment	(40)	(83)	(13)	(4)
<i>Financing and Investment Income and Expenditure:</i>				
• net interest expense	18,217	17,111	47	177
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	44,613	34,863	211	346
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>				
<i>Remeasurement of the net defined benefit liability</i>				
• Return on plan assets (excluding the amount included in the net interest expense)	19,087	(103,821)	(815)	(6,681)
• Actuarial gains and losses arising on changes in demographic assumptions	-	13,404	-	(1,206)
• Actuarial gains and losses arising on changes in financial assumptions	(69,691)	304,498	(1,708)	7,240
• Experience loss/ (gain) on defined benefit obligation	-	(20,719)	-	(2,982)
• Other actuarial gains/ (losses)	-	(5,476)	-	27
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(5,991)	222,749	(2,312)	(3,256)
Movement in Reserves Statement				
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(44,613)	(34,863)	(211)	(346)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
• employers' contributions payable to scheme	19,112	17,866	7	147

* The amounts in 2016/17 were restated from the audited accounts to ensure the totals cross-referenced to Note 3a: Adjustments Between Accounting Basis and Funding Basis and is compliant with the CIPFA Code of Practice.

27. Defined Benefit Schemes (cont'd)

Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	LBHF Local Government		LPFA Local Government	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Opening balance 1 April	1,544,495	1,215,591	47,458	45,317
Current service cost	30,610	19,812	151	154
Interest cost	41,073	43,204	1,073	1,454
Remeasurement (gains) and losses:				
- Change in financial assumptions	(69,691)	304,498	(1,708)	7,240
- Change in demographic assumptions	-	13,404	-	(1,206)
- Experience loss/(gain) on defined benefit	-	(20,719)	-	(2,982)
Liabilities assumed/ (extinguished) on	(6,504)	(1,050)	-	-
Estimated benefits paid net of transfers in	(36,798)	(33,852)	(1,599)	(2,508)
Past service costs, including curtailments	1,268	647	-	-
Contributions by Scheme participants	5,372	5,349	25	22
Unfunded pension payments	(2,355)	(2,389)	(33)	(33)
Closing balance at 31 March	1,507,470	1,544,495	45,367	47,458

Reconciliation of fair value of the scheme (plan) assets:

	LBHF Local Government		LPFA Local Government	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Opening balance 1 April	854,154	730,133	45,388	39,844
Interest on assets	22,856	26,093	1,026	1,277
Remeasurement gain/ (loss):				
- Return on assets less interest	(19,087)	103,821	815	6,681
- Other actual gains/ (losses)	-	5,476	-	(27)
Administration expenses	(614)	(614)	(59)	(52)
Contributions by employer including unfunded	21,507	20,338	53	184
Contributions by scheme participants	5,372	5,349	25	22
Estimated benefits paid plus unfunded net of	(39,153)	(36,241)	(1,632)	(2,541)
Settlement prices received/ (paid)	(2,803)	(201)	-	-
Closing balance at 31 March	842,232	854,154	45,616	45,388

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2018 £000	31 March 2017 £000
<i>Present Value of Liabilities</i>		
LBHF Local Government Pension Scheme (Funded)	1,472,728	1,507,531
LBHF Local Government Pension Scheme (Unfunded)	34,742	36,964
LPFA Local Government Pension Scheme (Funded)	45,146	47,205
LPFA Local Government Pension Scheme (Unfunded)	221	253
<i>Fair Value of Assets</i>		
LBHF Local Government Pension Scheme	(842,232)	(854,154)
LPFA Local Government Pension Scheme	(45,616)	(45,388)
<i>Net liability arising from defined benefit obligation</i>		
LBHF Local Government Pension Scheme	665,238	690,341
LPFA Local Government Pension Scheme	(249)	2,070
Total	664,989	692,411

27. Defined Benefit Schemes (cont'd)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total net liability of £664.9m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficits on both local government schemes will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Local Government Pension Scheme Assets

The return on the Funds (on a bid value to bid value basis) for the year 31 March 2018 is estimated to be 0% for LBHF Local Government Pension Scheme and 4% for LPFA Local Government Pension Scheme. The actual return on Fund assets over the year may be different. The asset allocations are set out below:

		LBHF Local Government Pension Scheme			
		31 March 2018		31 March 2017	
		£000	%	£000	%
Equities	UK	136,877	16%	195,926	23%
	Overseas	265,200	31%	247,261	29%
Cash Plus Funds		303,681	36%	272,497	32%
Cash		8,692	1%	11,666	1%
Property		47,434	6%	47,090	6%
Inflation Opportunity Funds		80,348	10%	79,714	9%
Total		842,232	100%	854,154	100%

		LPFA Local Government Pensions Scheme			
		31 March 2018		31 March 2017	
		£000	%	£000	%
Equities		27,893	61%	26,893	60%
Target Return Portfolio		10,223	22%	9,591	21%
Infrastructure		1,995	4%	2,390	5%
Property		3,283	7%	2,314	5%
Cash		2,222	5%	4,200	9%
Total		45,616	100%	45,388	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The LBHF Local Government Pension Scheme and LPFA Local Government Pension Scheme have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2016.

27. Defined Benefit Schemes (cont'd)

The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2017/18	2016/17	2017/18	2016/17
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	24.5	24.4	20.9	20.8
Women	26.1	26.0	24.1	24.0
Life expectancy from age 65 - retiring in 20 years				
Men	26.8	26.6	23.2	23.1
Women	28.4	28.3	26.3	26.2
Financial Assumptions				
Rate of Inflation - RPI	3.3%	3.6%	3.4%	3.3%
Rate of Inflation - CPI	2.3%	2.7%	2.4%	2.4%
Rate of Increase in Salaries	3.8%	4.2%	3.9%	3.9%
Rate of Increase in Pensions	2.3%	2.7%	2.4%	2.4%
Discount Rate	2.6%	2.7%	2.6%	2.3%

*Pension increases are linked to CPI inflation, therefore the impact analysis is equivalent.

These assumptions are set with reference to market conditions at 31 March 2018.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The projected service costs for 2018/19 are £28.540m (LBHF) and £0.143m (LPFA).

	Impact on the Projected Service Cost of the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Adjustment to:				
Discount Rate (+/- 0.1%)	27,881	29,216	141	145
Long term salary increase (+/- 0.1%)	28,540	28,540	143	143
Pension increases and deferred revaluation* (+/- 0.1%)	29,217	27,878	145	141
Mortality age rating assumption (+/- 1 year)	29,450	27,658	148	139

*Pension increases are linked to CPI inflation, therefore the impact analysis is equivalent.

Impact on the Council's Cash Flows

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by Regulations. The actuarial valuation of the fund was carried out as at 31 March 2016 and sets the employer's contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a level of funding of 100% using the actuarial valuation assumptions. LBHF have agreed a strategy with the scheme's actuary to achieve a funding level of 100% over a 22 year period.

The total contributions expected to be made by the Council in the year to 31 March 2019 are £19.826m to the LBHF Local Government Pension Scheme. The council has been paying additional contributions to the LPFA Local Government Pension Scheme from 2015 and this means no employer contributions will be required to be made in 2017/18. The position for 2018/19 onwards is under review and will be finalised shortly.

The actuary's estimate of the duration of the Employer's liabilities is 19 years for LBHF Local Government Pension Scheme and 12 years for LPFA Local Government Pension Scheme.

28. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2017/18	2016/17
	£000	£000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	164	164
Fees payable to External Audit for the certification of grant claims and returns for the year	31	31
Non-Audit Services	-	7
Total	195	202

29. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the school's budget funded by DSG receivable for 2017/18 are as follows:

	Central Expenditure	Individual Schools Budget	Total 2017/18	Total 2016/17
	£000	£000	£000	£000
Final DSG for 2017/18 before Academy Recoupment			138,665	131,820
Academy figure recouped for 2017/18			(62,222)	(56,031)
Total DSG after Academy recoupment for 2017/18			76,443	75,789
Plus: Brought forward from 2016/17			(2,165)	1,010
Less: Carry-forward to 2017/18 agreed in advance			2,165	-
Agreed initial budgeted distribution in 2017/18	9,225	67,218	76,443	75,789
In year adjustments	(28)	(1,648)	(1,676)	16
Final budgeted distribution for 2017/18	9,197	65,570	74,767	75,805
Less: Actual central expenditure	(7,593)	-	(7,593)	(11,038)
Less: Actual ISB deployed to schools	-	(72,041)	(72,041)	(67,942)
(Drawdown from)/Contribution to DSG Reserve	1,604	(6,471)	(4,868)	(3,175)
Early Years Funding Reserve			655	-
Carry Forward to 2018/19			(7,032)	(2,165)

30. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2017/18 £000	2016/17 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(29,499)	(38,453)
New Homes Bonus	(8,022)	(7,961)
Section 106 Non-ringfenced	(4,414)	(1,687)
S31 Grant - Business Rates Retention Scheme Relief	(2,493)	(1,266)
Housing Benefit and Council Tax Support Admin Subsidy	(1,433)	(1,661)
Adult Social Care Support Grant	(922)	-
Independent Living Grant	(822)	(850)
Preventing Homelessness Grant	(546)	(104)
Education Services	(286)	(1,159)
Prison Social Care	(203)	-
Other Non-ringfenced government grants	(894)	(784)
Capital grants and contributions	(13,368)	(14,087)
Total	(62,902)	(68,012)
Credited to Services		
Housing & Council Tax Benefit Subsidy	(116,510)	(139,738)
Dedicated Schools Grant	(79,634)	(78,980)
Public Health Grant	(23,601)	(22,750)
Sixth Form Grant	(6,098)	(5,503)
Improved Better Care Fund	(5,128)	-
Section 106	(5,104)	(2,734)
Pupil Premium Grant	(3,989)	(4,603)
DfE Capital Grants	(3,419)	(697)
Flexible Homelessness Grant	(3,417)	-
Adult Learning	(2,488)	(3,034)
PFI Grants	(1,429)	(1,429)
Infant Free School Meals	(1,037)	(1,160)
Children's Social Care Innovation Grant	(1,037)	(922)
Transport for London / Surface Transport	(1,022)	(1,074)
Disabled Facilities Grant	(897)	(508)
Troubled Families	(774)	(902)
NDR and BRS Cost of Collection Allowance	(597)	(570)
Other grants and contributions	(4,548)	(4,679)
Total	(260,729)	(269,283)

30. Grant Income (cont'd)

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are:

	2017/18	2016/17
	£000	£000
Grants and Contributions Receipts in Advance (Current)		
Public Health Grant	(3,185)	(4,448)
New Homes Bonus Grant	(928)	(1,259)
Learning & Skills Council - revenue	(851)	(538)
Dedicated Schools Grant	5,384	2,165
Other grants - revenue	(910)	(788)
Total	(490)	(4,868)

	2017/18	2016/17
	£000	£000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(23,914)	(12,788)
TfL	(2,064)	(2,096)
Social Care Grant	-	(949)
Winterbourne Grant	(300)	(300)
Other capital grants	(432)	(144)
Total	(26,710)	(16,277)

31. Related Parties

The Council is required to disclose material transactions with related parties. These are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding.

Grants received from government departments are set out in Note 30.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 24.

Information regarding reportable transactions has been collated by requiring all Members and Chief Officers to declare any related party transactions. A review was also carried out of the Council's Register of Declarations of Interests and of the Register of Pecuniary and Non-Pecuniary Interests of Councillors drawn up from declarations made at Committee and other meetings.

During 2017/18, the Council engaged in various transactions with related parties - per information provided by Councillors and Chief Officers to the value of £2.505m. The most significant transactions are to charitable organisations.

In addition to the above, many Members have relationships or hold positions with other public bodies and voluntary organisations with which the Council does not have a financially material relationship, but with which the Council has a financial or influential relationship. These include the Western Riverside Waste Authority and schools.

Pension Fund

The Council is the administering authority of the Pension Fund. The Council owed the Pension Fund a net amount of £0.228m at the year end. The Council incurred costs of £.0285m expenses in relation to administering the fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts in the Supplementary Financial Statements section.

Other Public Bodies

The Council has a pooled budget arrangement with Central London Clinical Commissioning Group for the provision of community equipment. This is now included in Note 32.

Shared Services

The Council has entered into joint working arrangements with the City of Westminster and the Royal Borough of Kensington and Chelsea. The nature of these arrangements does mean that each borough influences the others however, each borough remains sovereign.

32. Better Care Fund Pooled Budget

The Authority has entered into a pooled budget arrangement with The Hammersmith and Fulham Clinical Commissioning Group for the provision of Adult Social Care services to older people, people with physical or learning disabilities, people with mental health problems and services to safeguard adults.

The aim is to meet the needs of people living in the area of the London Borough of Hammersmith & Fulham. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the reablement of residents.

The arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed.

The pooled budget includes all income and expenditure relating to the Better Care Fund, whether funded by the local authority or the health service.

It is hosted by the London Borough of Hammersmith and Fulham, however, not all transactions pass through the Borough's accounting system.

The pooled budget for Joint Equipment has now been absorbed within the Better Care Fund.

The following table summarises the position for 2017/18:

	2017/18	2016/17
	£000's	£000's
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(13,294)	(8,261)
Hammersmith and Fulham Clinical Commissioning Group	(31,781)	(33,037)
Total Contributions	(45,075)	(41,298)
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	6,298	9,028
Costs relating to supporting residents to remain in their own homes	(0)	74
Costs relating to care provided in residential settings or in community settings	36,819	31,201
Support Services and programme management relating to the BCF	1,721	1,736
Total Expenditure	44,838	42,039
Net (surplus)/deficit arising on the pooled budget in the year	(237)	741
Net (surplus)/deficit split by:		
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources)	(10)	212
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	(227)	530

33. Interest in Companies

The Council has an involvement with a number of associated companies which are set out below. The assets and liabilities of these companies are not included in the Council's accounts as the materiality of the relationship does not justify such consolidation. Information is provided as to the general purpose of the company, its financial position, and any other material financial issues affecting the Council.

(i) Lyric Theatre Hammersmith Limited

This is a company limited by guarantee and a registered charity. Its main business is the promotion and encouragement of lively arts and theatre management. The Council supplies funding under a funding agreement to enable the company to carry out its charitable objectives. The revenue contributions by the Council were £0.230m in 2017/18. The latest audited accounts available, those relating to 2016/17, show net assets of £10.190m (£10.324m in 2015/16) and net income/(deficit) on its activities in that year of (£0.132m) (£0.249m in 2015/16). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council. Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.

Since 2011 the Council, as the major leaseholder, has taken the procurement lead in the Lyric Theatre Redevelopment Project. The Council is one of a number of significant funders of the project which will provide an extension of the community hub and broader cultural offer as well as an enhanced education offer following conclusion of the project.

(ii) Hammersmith and Fulham Urban Studies Centre

This charity is a charitable company limited by guarantee and was set up in 1983. Its objectives are the advancement of environmental education at all levels, particularly in the London Borough of Hammersmith and Fulham. The Council is the main source of grant funding for the charity. The contributions by the Council were £0.012m in 2017/18. The charity's latest audited accounts available, those relating to 2016/17 show net assets worth £0.064m, (£0.062m in 2015/16). A net gain of £0.003m has been reported for 2016/17 (net gain £0.405k in 2015/16). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iii) Joint Venture

HFS Developments LLP is a Joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 27 March 2014. The Company is in the process of dissolution as its contractual agreement ended with Stanhope Plc to establish a New Company in its place.

New Company HFS Development 2 LLP is a Joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 19 July 2016. This offers unique opportunities to the public and private sector to work together to deliver appropriate forms of housing. The latest audited accounts available, those relating to 2016/17 show loss for the period amounted to £0.390m.

(iv) LBHF Ventures Limited

LBHF Ventures Limited is a company wholly owned by the Council which was incorporated 9 June 2016. The Council invested £95,000, by way of share capital in LBHF Ventures Limited. The latest unaudited accounts available, those relating to 2016/17 show net assets worth £0.076m. A net loss for the period reported amounted to (£0.019m).

(v) LBHF Joint Ventures Limited

LBHF Joint Ventures Limited is a Limited Company owned 51% of shares by the Council and owned 49% of shares by 1st Credit Limited, which was incorporated on 9 June 2017.

(vi) LBHF Family Support Services Limited

LBHF Family Support Services Limited is a Limited Company wholly owned by the Council, which was incorporated on 18 August 2017. This company will deliver family services from 2018/19.

34. Contingent Assets and Contingent Liabilities

Contingent Assets

Discounted Market Sale Units

The Council has historically negotiated various Section 106 agreements which deliver affordable housing. These agreements allow the Council to retain an equity share of 30% or more on properties that are being sold at a discount at various sites in the borough. The total number of such properties currently stands at 499 units with an estimated valuation of £248m. This represents a potential asset to the Council of £138m based on the its equity share, however, this is subject to market fluctuations. The owners of such properties can request to buy the retained equity share from the Council, such a purchase would realise additional capital resources for the Council which can be invested in affordable housing projects, but the level and timing of such resources is uncertain.

Contingent Liabilities

Litigations and claims

The Council is involved in a number of litigations and claims that were ongoing as at the 31 March 2018 but their outcome is not yet determined.

	2017/18 £'000 (Est)
Total litigations and claims	14,200
	14,200

The Council is involved in a number of claims. These cases remain as contingent liabilities. If the Council is unsuccessful in these claims, then the Council may be liable to pay damages, interest and costs. All the above litigations are prudent estimates of the potential cost to the Council. It is not possible, due to considerations of legal privilege to either provide further information or to give an assessment of the likelihood of success of any of the litigations.

35. Trust Funds

The Mayor and Burgesses of the Council are the Trustees of the Wormwood Scrubs Charitable Trust. The Trust's objective is to hold Wormwood Scrubs Open Space "upon trust for the perpetual use thereof the inhabitants of the Metropolis for exercise and recreation" as defined by the Wormwood Scrubs Act of 1879. The table below shows the operating costs and income of the Trust:

	2017/18 £000	2016/17 £000
Balance at 1st April	(5,217)	(5,254)
Income	(1,072)	(699)
Sub total	(6,289)	(5,953)
Less:		
Expenditure and Transfers	774	736
Balance at 31 March	(5,515)	(5,217)

36. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets / Investment Properties	Asset valuations are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. However, the valuation of property will inevitably be an estimate and property values can be volatile. Should evidence emerge in 2018/19 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.	A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). For example, a 10 per cent reduction in the net book value of Council Dwellings (£127.2million) would result in a reduction of the Revaluation Reserve of £21.8 million and a £105.4 million charge to the CIES. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the CIES and / or gains being recorded as appropriate in the CIES. Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value. The net book value of non-current assets subject to potential revaluation is £1.746 billion.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation charges would increase. For example it is estimated that the annual depreciation charge for Council dwellings would increase by £0.3m for every year that useful lives had to be reduced.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Note 38.	The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs could result in a significantly lower or higher fair value measurement for the investment properties and financial assets. Any significant change would however largely be between asset values and the corresponding adjustment accounts - as such this would be unlikely to significantly affect the Council's revenue position or usable reserves.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions are considered in detail in Note 27.

37. Events after the Reporting Period

The Statement of Accounts have been prepared up to 31 March 2018. They were authorised for issue by the Strategic Finance Director on 17 July 2018.

There are no material adjusting events after the balance sheet date to report.

38. Statement of Accounting Policies

i. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

iii. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where the exact amount of a debtor or creditor was not known at the time of closing the accounts then an estimated amount has been used.

Any known uncollectable debts are written off and where there is uncertainty over debt recovery an allowance for doubtful debt is made. In both instances a charge is made to revenue.

iv. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to services as agreed in the annual budget.

v. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

38. Statement of Accounting Policies (cont'd)

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income & Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to help pay for facilities and community services such as: transport including roads, schools/colleges, medical/health services, sports and open spaces.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charge may be used to fund revenue expenditure.

vi. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

38. Statement of Accounting Policies (cont'd)

viii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

ix. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits, or service potential associated with the item, will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The threshold for capital expenditure has been set at £10,000.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost.
- dwellings - current value, determined using the basis of existing use value for social housing (EUV-SH).
- council offices - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- school buildings, sports centres and libraries – are deemed specialist nature and are measured at depreciated replacement cost which is used as an estimate of current value.
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Depreciated Replacement Cost is used as an estimate of current value where there is no market-based evidence of current value because of the specialist nature of an asset, for example schools.

Depreciated Historical Cost basis is used as a proxy for current value where non-property assets have short useful lives or low values (or both).

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

All items of property, plant and equipment, except Council Dwellings, are revalued on a five year rolling programme. Council Dwellings are revalued annually.

38. Statement of Accounting Policies (cont'd)

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted, where material, for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The estimated life is determined at the time of acquisition or when the asset has been revalued. Assets are depreciated from the year after their acquisition or completion, and are depreciated in the year of disposal. Depreciation is calculated on a straight line basis with no residual value.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, leading to a significantly different depreciation profile, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is assessed immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

38. Statement of Accounting Policies (cont'd)

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and

Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 75% of receipts relating to Right to Buy disposals (net of statutory deductions and allowances) is payable to the Government, except where receipts have been retained under the 1-4-1 replacement scheme.

The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant or equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

x. HERITAGE ASSETS

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Valuation Policy

The Council has decided to disclose Heritage Assets on a market valuation basis on the balance sheet. Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment, except where it is not practical to obtain a valuation. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external Valuers, nor is there any prescribed minimum period between valuations.

Depreciation, amortisation and impairment policy

The Council has a policy of not charging depreciation or amortisation on heritage assets which have indefinite lives. The carrying amount of a heritage asset shall be reviewed where there is evidence of impairment; for example, where an asset has suffered physical deterioration or breakage or new doubts arise as to its authenticity.

The Council has reported four categories of heritage assets:

(i) Art Collections

This category consists of pictures and works of art including historical paintings, sketches and other artwork including the Cecil French Bequest and is reported in the balance sheet at market valuation. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

(ii) Books & Printed Materials

This category consists of books, and other printed material such as press, pictures, drawings and prints. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

(iii) Ceramics & Glass

This category consists of ceramics and glass. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

(iv) Other Heritage Assets

This category consists of clocks, watches, coins, general items, jewellery, silver items, vertu, other decorative arts and the Mylne Bequest. These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

38. Statement of Accounting Policies (cont'd)

xi. INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xii. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

38. Statement of Accounting Policies (cont'd)

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Sale and Leaseback Assets

Where the Council has sold a property but is leasing it back, the substance of the lease is reviewed to determine if it falls under this policy.

Where the leaseback is a finance lease the lease is accounted for as any other finance lease with any apparent initial gain on the disposal deferred and amortised over the lease term.

Where the leaseback is an operating lease the lease is accounted for as any other operating lease and the asset disposed of is treated as an Asset Held for Sale and accounted for accordingly.

xiii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor.

As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's existing PFI scheme (which provides services for vulnerable older people in the borough) the liability was written down by an initial capital contribution of £2.9m.

38. Statement of Accounting Policies (cont'd)

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into the following elements:

- fair value of the services received during the year - debited to Adult Social Care service in the Comprehensive Income and Expenditure Statement
- finance cost - an interest charge between 8-17% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xiv. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The depreciable amount of an intangible asset is amortised over its useful life, usually 4 years but ranging between 3 to 10 years, to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. INVENTORIES

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'First-in, First-out' (FIFO) costing formula.

xvi. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that, having originally been invested for no longer than three months, are repayable on demand or readily convertible to known amounts of cash with an insignificant risk of change in value. Fixed Deposits are not considered to be readily convertible since they are only repayable at the point of maturity and cannot be traded or redeemed without penalty.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

Cash and Cash Equivalents are held to meet the daily cash flow needs of the Council. These are distinct from investments that are held for the purposes of capital protection or appreciation and/or earning a return.

38. Statement of Accounting Policies (cont'd)

xvii. FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for that particular instrument. For most of the loans which the Council has made, the amount presented in the Balance Sheet is the outstanding principal

receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement in the year is the amount which the loan agreement identified as receivable.

Where assets are identified as impaired because of a past event and there is a likelihood that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

38. Statement of Accounting Policies (cont'd)

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – professional estimate.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.

Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs - unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Financial Instruments Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xviii. EMPLOYEE BENEFITS

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves

Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

38. Statement of Accounting Policies (cont'd)

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the following pension schemes:

- Under the provisions of the Local Government Pension Scheme: the London Borough of Hammersmith and Fulham Pension Fund, administered by London Borough of Hammersmith and Fulham.
- Also under the Local Government Pension Scheme: the London Pensions Fund Authority (LPFA) Pension Fund, administered by the LPFA.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

However, the arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

Pension funds under the Local Government Scheme are accounted for as defined benefits schemes:

- The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.55% (2.7% in 2016/17). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the Merrill Lynch AA-rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the 'spot rate' approach adopted at the previous accounting date.
- The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities and pooled investment vehicles - current bid price
 - fixed interest securities net market value based on current yields at the balance sheet date
 - unquoted securities - professional estimate
 - unlisted securities - current bid price
 - property - market value.
- The change in the net pensions liability is analysed into the following components:

Service Cost comprising:

- **current service cost:** the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- **past service cost:** the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier year - debited to the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Centrally Managed Budgets.
- **net interest on the net defined benefit liability (asset):** i.e. net interest expense for the authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time

charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

38. Statement of Accounting Policies (cont'd)

Remeasurement comprising:

- **Re-measurement of the return on plan assets:** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial gains and losses:** (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) debited to the Pensions Reserve.
- **Contributions paid to the Funds:** cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

xix. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where:

- (a) an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council, or
- (b) in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts if the sums involved are likely to be material

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

38. Statement of Accounting Policies (cont'd)

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if the sums involved are likely to be material.

xx. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept in order to manage the accounting processes for non-current assets (e.g. Revaluation Reserve), financial instruments, retirement (e.g. Pensions Reserve) and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

xxi. INTERESTS IN COMPANIES AND OTHER ENTITIES

Where the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities it is required to prepare group accounts.

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that a full set of Group Accounts is not required for 2017/18. Companies in which the Council has an interest are detailed in Note 36 to the Core Financial Statements.

xxii. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

xxiii. FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in a foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xxiv. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxv. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial position.

xxvi. FAIR VALUE MEASUREMENT

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

38. Statement of Accounting Policies (cont'd)

The Council uses external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

39. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 38, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Funding

There continues to be a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Accounting for Schools - Recognition of Schools

The Council has been required to take a view on which school assets are recognised on the Council's balance sheet. The Council has recognised Community schools and Voluntary Controlled schools. The Council has not recognised Voluntary Aided, Free, or Academy Schools as it is of the view that these school assets are - to varying degree - beyond the control of the Authority. This position was thoroughly reviewed in light of guidance issued in 2014/15.

The Code of Practice on Local Authority Accounting in the UK confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the Schools Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cashflows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

Accounting for Schools - Transfer of Schools to Academy Status

When a school that is held on the Council's balance sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced.

Accounting for Schools - Transfer of Capital Grants

When an unconditional capital grant is passed to a school within the Council's accounting boundary, and remains unspent at the year-end, the Council has taken a view to account for this within Schools' Reserves as opposed to Capital Grants Unapplied.

Capital Charges associated with HRA Non-Dwelling Assets

In 2012/13, as part of transitional funding arrangements in the Housing Revenue Account (HRA), the Department for Local Government and Communities (DCLG) determined that the depreciation of non-dwelling assets should impact on the HRA balance. This determination was later extended to cover revaluation losses. Previously, such costs were neutralised to the Capital Adjustment Account (CAA). The Council, in complying with this determination, has taken a view that, in order to apply it consistently, it should also apply to revaluation gains. Gains incurred on investment properties have been reserved in an earmarked reserve - seeing that no revaluation reserve is available - which will be held to mitigate against future potential losses. The Council has taken a view that the DCLG determination does not extend gains and losses incurred on disposal. The Council has not adjusted the CAA to remove any funding associated with non-dwellings which has been reserved there. The DCLG issued a new determination in 2017 which substantially addressed the above issue, however the previous determination still applies to the period to which it pertained.

Investment Properties

Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which is subject to interpretation.

39. Critical Judgements in Applying Accounting Policies (cont'd)

Group Accounts

The group boundaries have been estimated using the criteria associated with the Code of Practice. In line with the Code the Council has not identified any companies within the group boundary that would require it to complete Group Accounts on grounds of materiality.

40. Accounting Standards not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

At the Balance Sheet date the following new standards and amendments to existing standards have been published but not yet adopted:

IFRS 9 Financial Instruments; which introduces extensive changes to the classification and measurement of financial assets, and a new 'expected credit loss' model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.

IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.

IAS 7 Statement of Cash Flows (Disclosure Initiative) will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 22) in future years.

The following changes are not expected to have any impact on the council's accounts:

IAS12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses) applies to deferred tax assets related to debt instruments measured at fair value.

IFRS16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Account

Housing Revenue Account (HRA)

Pension Fund Accounts

Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	2017/18			2016/17			Notes
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000	
Income							
Council Tax Collectable	-	(79,580)	(79,580)	-	(77,111)	(77,111)	1
Business Rates Collectable	(202,336)	-	(202,336)	(181,509)	-	(181,509)	2
Business Rate Supplement Collectable	(7,473)	-	(7,473)	(5,791)	-	(5,791)	
Transitional Protection Payment	(23,822)	-	(23,822)	1,540	-	1,540	
Total Income	(233,631)	(79,580)	(313,211)	(185,760)	(77,111)	(262,871)	
Expenditure							
<i>Precepts and Demands:</i>							
Central Government (CLG)	77,027	-	77,027	93,426	-	93,426	
LB Hammersmith & Fulham	70,024	55,268	125,292	56,056	53,888	109,944	
Greater London Authority	86,363	21,290	107,653	37,371	20,435	57,806	
<i>Business Rate Supplement</i>							
Payment to the Greater London Authority	7,461	-	7,461	5,777	-	5,777	2
Cost of collection	13	-	13	14	-	14	
<i>Charges to Collection Fund</i>							
Write-offs of uncollectable amounts	3,018	557	3,575	2,249	929	3,178	
Increase/ (Decrease) in Allowance for Doubtful Debts	58	2,179	2,237	(1,747)	(744)	(2,491)	
Increase/ (Decrease) in Provision for Appeals	7,890	-	7,890	(18,090)	-	(18,090)	
Distribution/(Recovery) of prior year surplus/(deficit)	13,948	1,403	15,350	9,667	1,600	11,267	
Cost of collection	584	-	584	556	-	556	
Total Expenditure	266,386	80,697	347,083	185,279	76,108	261,387	
Movement on Fund balance	32,755	1,117	33,871	(481)	(1,003)	(1,484)	
(Surplus)/Deficit as at 1 April	(15,238)	(4,031)	(19,269)	(14,757)	(3,028)	(17,785)	
(Surplus)/Deficit as at 31 March	17,517	(2,914)	14,602	(15,238)	(4,031)	(19,269)	

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2017/18 it was calculated as follows:

Band	Number of Dwellings 2017/18	Total after Exemptions, Disregards and Disabled Relief	Ratio to Band D	Band D Equivalent Properties	Adjustments for New Properties, other exemptions etc.	Adjustments for Council Tax Support	Total Band D equivalents 2017/18	Band D equivalents 2016/17
A	3,803	2,933	6/9	1,955	(28)	(578)	1,349	1,354
B	6,361	4,861	7/9	3,781	58	(1,220)	2,619	2,534
C	14,237	12,116	8/9	10,770	31	(2,759)	8,042	7,741
D	24,532	21,807	1	21,807	21	(3,619)	18,209	17,738
E	15,364	14,050	11/9	17,172	(57)	(2,160)	14,955	14,606
F	9,217	8,550	13/9	12,350	(1)	(968)	11,381	11,096
G	10,965	10,386	15/9	17,310	5	(522)	16,793	16,574
H	2,314	2,239	18/9	4,477	81	(20)	4,538	4,298
Total	86,793	76,941		89,622	110	(11,846)	77,886	75,941

The 2017/18 Council Tax Base after allowing for adjustments for non-collection was 75,938.

The Council set a 2017/18 Band D charge of £727.81 (no change from 2016/17), the GLA's Band D charge for 2017/18 was £280.02 (£276.00 in 2016/17) making a total Band D Council Tax charge for 2017/18 of £1,007.83 (£1,003.81 in 2016/17).

2. National Non-Domestic Rates

NNDR is organised and administered on a national basis. The council collects non-domestic rates for its area that are based on local rateable values multiplied by a uniform rate (set by the Government). The National Non-Domestic Rateable Value at 31 March 2018 was £567.853m (£428.674m as at 31 March 2017). The standard NNDR multiplier for 2017/18 was 47.9 pence (49.7 pence in 2016/17). The Small Business Rate Relief multiplier for 2017/18 was 46.6 pence (48.4 pence in 2016/17).

The Council is responsible for collecting rates due from ratepayers in its area but until 31 March 2013 it paid the proceeds into an NNDR pool administered by the Government. The Government redistributed the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of the population. On 1 April 2013 the Government introduced a new local government funding regime, the Business Rates Retention Scheme. This removed the national pool and instead allows councils to retain a set proportion of business rates collected (reflected as a precept) subject to set baselines and limits. The remainder of business rates collected are paid as precepts to the Government (CLG) and the Greater London Authority (GLA).

The council is also required to collect a Business Rate Supplement (BRS) from NNDR taxpayers. This BRS is then paid over to Greater London Authority (GLA) who have responsibility for applying it to the Crossrail project across London.

3. Collection Fund Balance

A proportion of the Collection Fund balance above is properly attributable to the GLA or the CLG and thus should not be wholly taken to the net worth component of the Council's Balance Sheet. Only an element calculated pro rata to the precepts above therefore appears as a balance in the net worth section of the Balance with the remainder treated as a debtor.

	2017/18			2016/17		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
London Borough of Hammersmith and Fulham	5,255	(2,068)	3,187	(4,572)	(2,915)	(7,487)
Greater London Authority	6,481	(846)	5,635	(3,047)	(1,116)	(4,163)
Central Government (CLG)	5,780	-	5,780	(7,619)	-	(7,619)
	17,517	(2,914)	14,602	(15,238)	(4,031)	(19,269)

Housing Revenue Account (HRA)

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HRA Income and Expenditure Statement

	Notes	2017/18 £000	2016/17 £000
Income			
Dwelling Rents		(68,481)	(68,230)
Non-dwelling rents		(2,584)	(2,334)
Charges for services and facilities		(13,950)	(9,707)
Contributions towards expenditure		(2,301)	(2,342)
		(87,316)	(82,613)
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		16,164	15,751
Supervision and management		33,158	29,999
Rents, rates, taxes and other charges		397	433
Depreciation and impairment of non-current assets	6	18,655	21,755
Depreciation and impairment of non-current assets - dwelling revaluation	6	35,780	15,131
Debt management costs		118	72
Movement in the allowance for bad debts		957	1,246
		105,229	84,387
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement			
HRA services' share of Corporate and Democratic Core		312	297
HRA services' share of Non Distributed Costs		(383)	(206)
Net (Income)/ Cost for HRA Services		17,842	1,865
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
(Gain)/loss on sale of HRA non-current assets		(8,168)	(8,962)
Income and expenditure in relation to investment properties and changes in their fair value		72	153
Interest payable and similar charges		8,944	9,551
Interest and investment income		(153)	(76)
Net interest on the net defined benefit liability (asset)		1,670	1,781
Capital grants and contributions		(1,555)	(58)
(Surplus)/deficit for the year on HRA services		18,652	4,254
Movement on the HRA Statement			
Balance on the HRA at the end of the previous year		(20,128)	(18,520)
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		18,652	4,254
Adjustments between accounting basis and funding basis under statute	1	(24,809)	(8,392)
Net (increase)/decrease before transfers to/(from) reserves		(6,157)	(4,138)
Transfers to/(from) reserves			
Earmarked Reserves*		16,339	2,530
(Increase)/decrease in year on the HRA		10,182	(1,608)
Balance on the HRA at the end of the current year		(9,946)	(20,128)

* For movements in HRA earmarked reserves refer to note 4 of the Core Financial Statements.

Notes to the Housing Revenue Account**1. Adjustments between accounting basis and funding basis under statute**

	2017/18 £000	2016/17 £000
Charges for depreciation of non-dwellings	(232)	(257)
Charges for depreciation of dwellings	16,261	21,498
Reversal of Major Repairs Allowance credited to the HRA	(16,028)	(25,377)
Impairment/Revaluation gains, losses (charged to the I&E)	(37,942)	(15,131)
Revenue expenditure funded from capital under statute (REFCUS)	(266)	(141)
Movements in the market value of investment properties	-	-
Capital Funding	6,939	4,078
Gain or loss on sale of HRA non-current assets	8,870	8,803
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(38)	(86)
HRA share of contributions (to)/from the Pensions Reserve	(2,373)	(1,779)
Total	(24,809)	(8,392)

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2017/18 was 12,219. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents.

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2017	12,290	90	13	12,393
Adjustment to opening balance	(62)	-	-	(62)
Additions	13	-	-	13
Transfers	(59)	(23)	-	(82)
Disposals	(35)	-	-	(35)
Number at 31 March 2018	12,147	67	13	12,227

3. Stock Valuation

The net balance sheet value of land, housing dwellings and other assets within the HRA is as follows:

	31 March 2018 £000	31 March 2017 £000
Operational Assets		
Housing Dwellings	1,272,098	1,304,063
Other Land and Buildings	11,333	10,317
Intangible Assets	33	64
Non Operational Assets		
Surplus Assets	6,788	871
Investment Properties	53,186	50,166
	1,343,438	1,365,481

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2018 was £5.07 billion. This compares to the balance sheet value of £1.27 billion for the Council's dwelling stock and hostels as at 31 March 2018. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2017/18	2016/17
	£000	£000
Major Repairs Reserve	16,261	17,618
Other Grants and Contributions	5,135	4,689
Capital Receipts	16,087	21,908
Total	37,483	44,215

5. Capital Receipts

During the year the following net capital receipts from disposals were received:

	2017/18	2016/17
	£000	£000
Dwelling & Hostels	(8,380)	(12,446)
Non-Dwellings	(4,353)	(2,176)
Total	(12,733)	(14,622)

6. Depreciation and Impairment

The total charge for depreciation and impairment within the council's HRA is shown overleaf:

	2017/18	2016/17
	£000	£000
Operational Assets		
Depreciation		
Dwellings	16,261	21,498
Other Land and Buildings	188	185
Vehicles, Plant, Equipment and Intangible Assets	32	59
Surplus Assets	13	13
Revaluation (Gain) / Loss - non-dwellings	2,161	-
Sub-total depreciation and impairment of non-current assets	18,655	21,755
Revaluation (Gain) / Loss - dwellings	35,780	15,131
Total	54,435	36,886

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2017/18	2016/17
	£000	£000
Main Council Stock	6,523	5,420
Hostels	652	593
Total	7,175	6,013

Allowances for Doubtful Debts at 31 March were:

	2017/18	2016/17
	£000	£000
Main Council Stock	(5,071)	(4,936)
Hostels	(618)	(562)
Total	(5,689)	(5,498)

Pension Fund Accounts

Fund Account

Net Assets Statement

Notes to the Pension Fund

Fund Account

	Note	2017/18		2016/17	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	8	24,268		22,494	
From Members	8	6,781	31,049	6,937	29,431
Individual Transfers In from other Pension Funds			3,012		2,090
Other Income			(607)		753
Benefits					
Pensions	9	(31,465)		(30,002)	
Commutation & Lump Sum Retirement Benefits	9	(7,256)	(38,721)	(5,685)	(35,687)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(4,086)		(5,046)
Refunds to members leaving service			(20)		(37)
Net Additions (Withdrawals) from dealings with members			(9,373)		(8,496)
Management expenses	10		(4,503)		(6,530)
Returns on Investments					
Investment Income	11		10,283		12,822
Taxes on Income (Irrecoverable Withholding Tax)			-		(23)
Profit and losses on disposal of investments and changes in value of investments	13		10,384		148,740
Net Returns on Investments			20,667		161,539
Net Increase (Decrease) in the net assets available for benefits during the year			6,791		146,513
Opening Net Assets of the Scheme			1,002,832		856,319
Closing Net Assets of the Scheme			1,009,623		1,002,832

Net Assets Statement

	Note	31 March 2018 £000	31 March 2017 £000
Investment Assets			
Index Linked Securities	13	-	-
Equities	13	-	112,475
Pooled Property Vehicles	13	51,933	
Pooled Investment Vehicles	13	891,097	881,865
Private Equity / Infrastructure	13	55,261	-
Derivative contracts - forward foreign exchange	13		-
Cash Deposits	13	6,168	7,856
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13		76
Investment Income Due	13	35	521
Investment Liabilities			
Derivative contracts - forward foreign exchange	13		-
Amounts Outstanding on Purchase of Investments	13		(111)
Net Investment Assets	13	1,004,494	1,002,682
Current Assets	21	2,059	1,539
Current Liabilities	22	(1,291)	(4,223)
Cash Balances (held directly by Fund)		4,361	2,834
Net assets of the Fund available to fund benefits at the period end		1,009,623	1,002,832

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 20a.

Notes to the Pension Fund Accounts

NOTE 1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from returns on the Fund's investments. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 20.

b) Pensions Sub Committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-committee and delegated all pensions responsibilities to it. The sub-committee decide on the investment strategy most suitable to meet the liabilities of the Fund and have responsibility for the investment strategy. The sub-committee is made up of five elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the sub-committee meetings but have no voting rights.

The sub-committee reports annually to the Audit, Pensions and Standards Committee and has full delegated authority to make investment decisions. The sub-committee obtains and considers advice from the Strategic Director of Finance and Governance, and as necessary from the Fund's appointed actuary, investment managers and adviser.

c) Pension Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Pensions sub-committee.

d) Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy on 20 June 2017 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 12), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

e) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Hammersmith & Fulham Pension Fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar

bodies and private contractors undertaking a local authority function following outsourcing to the private sector.

The Deferred member numbers include 883 undecided leavers, who are no longer paying contributions or in receipt of benefits.

	31 March 2018	31 March 2017
Number of Active Employers	45	45
Contributing employees	4,166	4,383
Pensioners receiving benefit	4,920	4,800
Deferred Pensioners	6,603	6,670

Details of the scheduled and admitted bodies are in the Fund's Annual Report.

NOTE 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for 2017/18 and its position at year end as at 31 March 2018. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in a note to the accounts (Note 19). The Pension Fund Accounts have been prepared on a going concern basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account - Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c) Investment Income

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment

manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

Fund Account - Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs 2016".

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

Net Assets Statement

g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 15a).

h) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 15a).

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions which are repayable on demand without penalty.

k) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of retirement benefits by way of a note to the Net Assets Statement (Note 20a).

m) Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. They are disclosed in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 23, but it is not open for new members.

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 10.

NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are on the basis of best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

The items for which there is a significant risk of material adjustment are:

a) Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in the accompanying actuarial report. The estimates of the net liability to pay pensions depends on a number of judgements and assumptions. In particular, are those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £153m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £4m, a 0.2% increase in pension increases would increase the liability by about £56m and a one year increase in life expectancy would increase the liability by about £61m

b) Unquoted Investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £5.6m.

The fair value of the Partners multi credit asset fund and the Partners infrastructure fund is also to some extent subjective. A number of the underlying assets are traded in private markets only and therefore judgements need to be made about value, using factors such as the enterprise value and net debt. The value in the net assets statement is £49.6m.

NOTE 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and

expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £8m, a 0.2% increase in pension increases would increase the liability by about £70m and a one year increase in life expectancy would increase the liability by about £62m

NOTE 6. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments

NOTE 7. EVENTS AFTER THE BALANCE SHEET

There have been no material events after the balance sheet date.

NOTE 8. CONTRIBUTIONS RECEIVABLE

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the fund.

The table overleaf shows a breakdown of the total amount of employer's and employee's contributions.

	Employers' Contributions				Employees' Contributions	
	Normal		Deficit Recovery			
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000	£000	£000
Administering Authority	12,758	9,809	6,393	8,101	5,139	5,380
Scheduled Bodies	987	1,526	1,422	890	836	742
Admitted Bodies	2,623	2,115	85	53	806	815
Total	16,368	13,450	7,900	9,044	6,781	6,937
TOTALS			24,268	22,494	6,781	6,937

NOTE 9. BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable.

	Pensions		Lump sum retirement benefits		Lump sum death benefits	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000	£000	£000
Administering Authority	(29,647)	(28,466)	(5,442)	(4,372)	(825)	(515)
Scheduled Bodies	(1,574)	(1,358)	(782)	(542)	(71)	(77)
Admitted Bodies	(244)	(178)	(136)	(179)	-	-
Total	(31,465)	(30,002)	(6,360)	(5,093)	(896)	(592)
TOTALS	(31,465)	(30,002)			(7,256)	(5,685)

NOTE 10. MANAGEMENT EXPENSES

The table below shows a breakdown of the management expenses incurred during the year.

	2017/18	2016/17
	£000	£000
Administrative costs	(403)	(520)
Investment management expenses	(3,648)	(5,743)
Oversight and governance costs	(452)	(267)
	(4,503)	(6,530)

Investment management expenses have fallen significantly during the year, as a result of there being no Majedie performance fees, reductions gained both by joining London CIV and those negotiated with Legal & General

The table below provides a breakdown of the Investment Management Expenses.

	2017/18	2016/17
	£000	£000
Management fees	(3,223)	(4,310)
Performance fees	(343)	(997)
Transaction costs*	(38)	(382)
Custody fees	(44)	(54)
	(3,648)	(5,743)

*Transaction costs incurred on segregated assets only

NOTE 11. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2017/18	2016/17
	£000	£000
Dividends from Equities	5,331	9,975
Bonds	47	35
Interest on Cash Deposits	17	16
Private Equity/Other	4,888	2,796
Total	10,283	12,822

NOTE 12. INVESTMENT STRATEGY

In August 2015 a commitment was made to the Partners Group Direct Infrastructure fund and this is being funded over time from the cash held in the Legal and General sterling liquidity fund.

The private equity commitments were made some years ago and the funds are now in the distributing phase. As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. The £127m Majedie portfolio transferred to CIV in May 2017. Work was also undertaken to realise some of the equity gains made on the Majedie segregated equity fund which resulted in the £60m proceeds being temporarily invested in the LCIV Ruffer Fund. These monies will be used to cover future capital call payment for the Partners Group & the new Aviva Infrastructure Funds totalling £30m each, over the next few years which was agreed at the September 2017 Sub-Committee.

The market value and proportion of investments managed by each fund manager at 31 March 2018 was as follows:

	31 March 2018		31 March 2017	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Ruffer - Absolute Return (Active)	157,480	15.7%	101,628	10.1%
Majedie - UK Equity (Active) (LGPS CIV)	125,194	12.5%	-	0.0%
LGIM - World Equity (Passive)	302,920	30.1%	294,433	29.4%
Majedie - UK Equity (Active)	33,946	3.4%	224,141	22.4%
Insight - Bonds	88,885	8.8%	89,121	8.9%
LGIM - Liquidity Fund	10,868	1.1%	10,827	1.1%
Partners Group - Private Equity	41,711	4.2%	52,593	5.2%
Partners Group - Private Infrastructure	7,031	0.8%	8,743	0.9%
Oak Hill Advisers - UK Equity (Active)	72,371	7.2%	70,334	7.0%
M & G - Inflation Opportunities	99,302	9.9%	94,998	9.5%
Standard Life - Long Lease Property	51,933	5.2%	47,037	4.7%
Invesco - Private Equity	3,757	0.4%	5,366	0.5%
Unigestion - Private Equity	1,871	0.2%	2,945	0.3%
Aviva - Private Infrastructure	-	0.0%	-	0.0%
Inhouse Cash - Cash	7,075	0.6%	366	0.0%
London CIV Ltd	150	0.0%	150	0.0%
	1,004,494	100.0%	1,002,682	100.0%

NOTE 13. RECONCILIATION OF MOVEMENT IN INVESTMENTS

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2017/18. In order to be fully SORP compliant the table below shows a reconciliation of the movement in the total investment assets by Asset Class during 2017/18, as opposed to by Fund Manager, as was previously the case:

	Value at 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Value at 31 March 2018
Fund Manager	£000	£000	£000	£000	£000
Bonds	-	-	-	-	-
Equities	112,475	6,485	(120,878)	1,918	-
Pooled equity investments	765,856	197,904	(74,163)	1,500	891,097
Pooled property investments	47,037	-	(248)	5,144	51,933
Private equity/infrastructure	68,973	5,614	(20,065)	739	55,261
Derivatives:					
Forward foreign exchange	(1)	1	-	-	-
Cash instruments	-	-	-	-	-
Sub-total	994,340	210,004	(215,354)	9,301	998,291
Cash Deposits	7,856			1,065	6,168
Amounts receivable from sales of investments	76			-	-
Investment income due	521			-	35
Spot FX contracts	-			18	-
Amounts payable for purchases of investments	(111)			-	-
Totals	1,002,682	210,004	(215,354)	10,384	1,004,494

The equivalent analysis for 2016/17 is provided below:

Fund Manager	Value at 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Value at 31 March 2017
	£000	£000	£000	£000	£000
Bonds	36,771	1,624	(39,237)	842	-
Equities	141,522	42,916	(95,168)	23,205	112,475
Pooled equity investments	562,331	1,005,823	(919,863)	117,565	765,856
Pooled property investments	43,925	-	(224)	3,336	47,037
Private equity/infrastructure	62,336	12,461	(10,230)	4,406	68,973
Derivatives:					
Forward foreign exchange	(368)	4,777	(3,658)	(752)	(1)
Cash instruments	-	-	-	-	-
Sub-total	846,517	1,067,601	(1,068,380)	148,602	994,340
Cash Deposits	7,544			181	7,856
Amounts receivable from sales of investments	278			(1)	76
Investment income due	1,242			-	521
Spot FX contracts	-			(42)	-
Amounts payable for purchases of investments	(16)			-	(111)
Totals	855,565	1,067,601	(1,068,380)	148,740	1,002,682

NOTE 14. INVESTMENTS EXCEEDING 5% OF NET ASSETS

The table below shows the Fund investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

	2017/18	2017/18	2016/17	2016/17
	£000	%	Restated* £000	%
Legal & General World ex UK Dev equity fund index	302,920	30.2%	294,433	29.4%
LCIV Ruffer Absolute Return *	157,480	15.7%	101,628	10.1%
LCIV Majedie UK Equity	125,193	12.5%	0	0.0%
M&G Inflation Opportunities Fund V	99,302	9.9%	94,998	9.5%
Insight Investment Bonds Plus Fund	88,885	8.8%	89,121	8.9%
Oak Hill Advisers Diversified Credit Strategies Fund	72,371	7.2%	53,734	5.4%
Standard Life Long Lease Fund	51,933	5.2%	47,037	4.7%
Partners Group Multi Asset Credit 2014 Fund	41,711	4.2%	52,593	5.2%
Majedie Focus Fund	33,946	3.4%	77,950	7.8%

* 2016/17 restated as LCIV Ruffer assets were not included.

NOTE 15a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. All investments are quoted unless stated.

	31 March 2018			31 March 2017		
	Designated at fair value through profit & loss £000	Loans and receivables £000	Financial Liabilities at amortised cost £000	Restated*		
				Designated at fair value through profit & loss £000	Loans and receivables £000	Financial Liabilities at amortised cost £000
FINANCIAL ASSETS						
<i>Equities:</i>						
UK	-	-	-	98,241	-	-
Overseas	-	-	-	14,234	-	-
<i>Pooled Investment Vehicles:</i>						
UK equity funds	791,194	-	-	665,907	-	-
UK cash funds	10,867	-	-	10,827	-	-
UK property funds	51,933	-	-	47,037	-	-
Overseas fixed income fund	88,885	-	-	89,121	-	-
London LGPS CIV	150	-	-	-	-	-
UK venture capital	41,711	-	-	52,587	-	-
Overseas venture capital	13,551	-	-	16,386	-	-
Investment income due	35	-	-	521	-	-
Pending trade sales	-	-	-	76	-	-
Cash deposits with managers	-	6,168	-	-	7,856	-
Debtors	-	2,059	-	-	1,539	-
Cash balances (held by fund)	-	4,361	-	-	2,834	-
	998,326	12,588	-	994,937	12,229	-
FINANCIAL LIABILITIES						
Pending Trade Purchases	-	-	-	(111)	-	-
Creditors	-	-	(620)	-	-	(3,568)
	-	-	(620)	(111)	-	(3,568)
GRAND TOTALS	998,326	12,588	(620)	994,826	12,229	(3,568)

The carrying value is the same as the fair value for all financial instruments held by the Fund.

*Prior year Creditors have been restated to remove the HMRC VAT & PAYE creditors, as these are not financial instruments

NOTE 15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

This table summarises the net gains and losses on financial instruments classified by type of instrument.

	2017/18 £000	2016/17 £000
Financial Assets		
Fair value through profit and loss	10,235	149,311
Loans and receivables	149	181
Financial Liabilities		
Fair value through profit and loss	-	(752)
	10,384	148,740

NOTE 15c. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The definitions of the levels are detailed below.

Level 1 – Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

Level 3 – Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data e.g. private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. The Partners Group multi credit asset and the infrastructure funds are closed ended and therefore not tradable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

	31 March 2018			31 March 2017		
	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Quoted Market Price	Using observable inputs	With significant unobservable inputs
	Level 1 £000	Level 2 £000	Level 3 £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial Assets						
Designated at fair value through profit and loss	33,940	908,939	55,412	217,252	707,965	69,123
Total Financial Assets	33,940	908,939	55,412	217,252	707,965	69,123
Financial Liabilities						
Designated at fair value through profit and loss	-	-	-	486	-	-
Total Financial Liabilities	-	-	-	486	-	-
Net Financial Assets	33,940	908,939	55,412	217,738	707,965	69,123
			998,291			994,826

NOTE 16a. FAIR VALUE BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - equity funds UK and Overseas Managed Funds	Level 2	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk.	Not required.

Pooled Long Lease Property Fund	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data.	Not required.
Private equity	Level 3	Valuations are prepared by Fund managers based on the latest profit forecasts and other financial information available at the time of preparing the Fund's financial statements.	Fund managers valuation statements are prepared in accordance with ECVA Guidelines.	Key sensitivities include market prices achieved by comparable investments, future income projections and the cost of replacing key business assets.
Infrastructure funds	Level 3	Valued by Fund Managers at the lower of cost and fair value.	Managers use their judgement having regard to the EVCA guidelines noted above for valuing unquoted investments.	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted where the manager considers there is an impairment to the underlying investment.
Pooled investments - property funds	Level 2	Closing bid price where bid and offer prices are published.	Adjusted for net capital current assets.	Estimated acquisition and disposal costs.

NOTE 16b. TRANSFERS BETWEEN LEVELS 1 AND 2

£127m of Majedie UK Equities (Level 1) were sold & the proceeds used to purchase assets in the London CIV Majedie Fund (Level 2).

£60m of Majedie Focus Fund (Level 1) assets were sold, in order to realise some of the profits gained on Equities. The proceeds were used to re-balance the portfolio and resulting funds were used to purchase units in the London CIV Ruffer Fund (Level 2), for the purposes of future capitals due on Partners Group Infrastructure & the new Aviva Infrastructure Fund.

The Insight Bonds Portfolio valued at was reclassified from Level 1 to Level 2 and the Ruffer portfolio from Level 3 to level 2 as a result of additional pricing information becoming available

NOTE 16b. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

2017/18	Market Value as at 31/03/2017	Transfers in / out of Level 3	Purchases	Sales	Unrealised gains / (losses)	Realised gains / (losses)	Market Value as at 31/03/2018
UK equities	150	(150)	-	-	-	-	-
Overseas venture capital	16,386	-	5,614	(7,672)	(2,540)	1,763	13,551
UK venture capital	52,587	-	-	(12,393)	1,516	-	41,710
London LGPS CIV	-	150	-	-	-	-	150
Total	69,123	-	5,614	(20,065)	(1,024)	1,763	55,411

NOTE 17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation through pension and pay increases, interest rates and mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts, as the liabilities move in accordance with changes in the relevant gilt yields.

The Sub-committee maintains a Pension Fund risk register and reviews the risks and appropriate mitigating actions at every meeting.

a) Market Risk

In order to meet the Fund's objective of being fully funded within 22 years of the 2016 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to maximise the opportunity for gains across the whole Fund portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-committee and is reviewed on a regular basis.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of the derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

All assets with the exception of cash, forward foreign exchange contracts, other investment balances, debtors and creditors are exposed to price risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if prices had been 10% higher or 10% lower.

Assets exposed to price risk

	Value	+ 10%	- 10%
	£000	£000	£000
At 31st March 2018	998,291	1,098,120	898,462
At 31st March 2017	994,340	1,093,774	894,906

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

Index linked gilts, cash and some elements of the pooled investment vehicles are exposed to interest rate risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if interest rates had been 1% higher or 1% lower.

Assets exposed to interest rate risk

	Value	+ 1%	- 1%
	£000	£000	£000
At 31st March 2018	220,573	222,779	218,367
At 31st March 2017	210,364	212,468	208,261

Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The Fund recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non-sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to.

Assets exposed to currency risk

	Value	+ 10%	- 10%
	£000	£000	£000
At 31st March 2018	418,816	460,698	376,934
At 31st March 2017	360,756	396,831	324,680

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 10.20% of the Fund's Net Assets at 31 March 2018 (12.1% at 31 March 2017). The remaining can all be liquidated within days.

		31 March 2018	31 March 2017
		£000	£000
Partners Group	Multi Asset Credit	41,711	52,587
Partners Group	Infrastructure	7,924	16,386
Standard Life	Property	51,933	43,925
Invesco	Private Equity	3,757	5,301
Unigestion	Private Equity	1,871	3,524
		107,195	121,723

NOTE 18. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had the following commitments at the balance sheet date:

	31 March 2018	31 March 2017
	£000	£000
Invesco Partnership Fund V L.P.	-	451
Aviva Infrastructure Fund	30,000	-
Partners Group Direct Infrastructure Fund 2015	40,198	38,553
	70,198	39,004

The outstanding commitments for Invesco and Unicapital are expected to be paid over the next twelve months. The Partners infrastructure commitment is expected to be paid by December 2020.

NOTE 19. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

NOTE 20. FUNDING ARRANGEMENTS

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Hammersmith & Fulham Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £851m and the actuary assessed the present value of the funded obligation at £965m indicating a net liability of £114m (£147m 2013).

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

- i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- ii. Future rises in pensionable pay due to inflation and pension increases.
- iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.
- iv. Progression of pensionable pay due to promotion.

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension payments when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020.

NOTE 20a. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2018. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

	31 March 2018	31 March 2017
	£000	£000
Present Value of Promised Retirement Benefits*	(1,629,783)	(1,656,377)
Fair Value of Scheme Assets (bid value)	992,168	1,000,383
Net Liability	(637,615)	(655,994)

* Present Value of Promised Retirement Benefits comprises of £1,592.5m (£1,613.4m at 31 March 2017) and £37.3m (£43.0m at 31 March 2017) in respect of vested benefits and non-vested benefits respectively as at 31 March 2018.

The assumptions applied by the actuary are set out below:

Financial Assumptions

	31 March 2018	31 March 2017
RPI Increases	3.3%	3.6%
CPI Increases	2.3%	2.7%
Salary increases	3.8%	4.2%
Pension increases	2.3%	2.7%
Discount Rate	2.6%	2.7%

Demographic Assumptions

The post mortality tables adopted are the S1PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% p.a. The assumed life expectancies from age 65 are:

Life Expectancy from age 65

		31 March 2018	31 March 2017
Retiring today	Males	24.5	24.4
	Females	26.1	26
Retiring in 20 years	Males	26.8	26.6
	Females	28.4	28.3

Other Assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

NOTE 21. CURRENT ASSETS

	31 March 2018	31 March 2017
Debtors	£000	£000
Contributions due - employers	736	334
Contributions due - employees	197	113
London Borough of Hammersmith and Fulham	228	1,085
Sundry debtors	898	7
	2,059	1,539

	31 March 2018	31 March 2017
Analysis of debtors	£000	£000
Local authorities	228	1,117
Other entities and individuals	1,831	422
	2,059	1,539

NOTE 22. CURRENT LIABILITIES

	31 March 2018	31 March 2017
	£000	£000
Creditors		
Unpaid Benefits	(75)	(2,439)
Management Expenses	(369)	(1,062)
HM Revenue and Customs	(672)	(655)
Sundry creditors	(175)	(67)
	(1,291)	(4,223)

	31 March 2018	31 March 2017
	£000	£000
Analysis of creditors		
Local authorities	(158)	(67)
Central government bodies	(672)	(655)
Other entities and individuals	(461)	(3,501)
	(1,291)	(4,223)

NOTE 23. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. The table below shows information about these separately invested AVCs.

	31 March 2018	31 March 2017
	£000s	£000s
Zurich Assurance		
Market Value at 31st March	824	1172
Contributions during the year	35	21
Number of members at 31st March	40	41
Equitable Life Assurance		
Market Value at 31st March	203	193
Contributions during the year	-	-
Number of members at 31st March	29	30

In accordance with Regulation 4(1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

NOTE 24. RELATED PARTIES**London Borough of Hammersmith and Fulham**

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.285m in 2017/18 (£0.240m in 2016/17) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

Governance Arrangements

One member of the Pensions sub-committee is a deferred member of the Hammersmith and Fulham Pension Fund. Members of the sub-committee are required to make a declaration of interests at the beginning of each meeting.

Key management personnel

The key management personnel of the Fund are the Members of the Pension Sub-Committee, the Strategic Director of Finance and Resources, the Tri-borough Director of Pensions and Treasury and the Director of Corporate Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2018	31 March 2017
	£000	£000
Short-term benefits	26	37
Post-employment benefits	(3)	39
Other long-terms benefits	-	-
Termination benefits	-	7
Share-based payments	-	-
	23	83

NOTE 25. AGENCY SERVICES

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the Council. In 2017/18 the pension fund paid discretionary awards of £2.342m (£2.588m in 2016/17). £0.766m was outstanding from the Council at year end.

	2017/18	2016/17
	£000	£000
Payments on behalf of London Borough of Hammersmith and Fulham	2,342	2,588
	2,342	2,588

NOTE 26. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund's external auditors, KPMG LLP, was £21,000 (£21,000 in 2016/17).

OTHER INFORMATION

Annual Governance Statement

Glossary of Terms

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

The London Borough of Hammersmith and Fulham is responsible for ensuring a sound system of governance and that its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the authority's code can be obtained from governance services. This statement explains how the Council has complied with the code and meets the requirements of Accounts and Audit Regulations 2015, regulation 6(b), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems, processes and structures by which the Council is directed and controlled. These include those required to enable the Council to engage with, account to and lead the communities it serves. The framework enables the Council to set the right objectives and manage the achievement of the objectives whilst ensuring delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and, amongst other things, is designed to manage risk to a reasonable level. The system of internal control cannot eliminate all risk of failure to comply with policies or the achievement of aims and objectives and can only provide reasonable rather than absolute assurance of effectiveness. The system includes processes to identify:

- the risks to the achievement of the Council's aims and objectives
- the likelihood of the risks crystallising
- how to manage the risks appropriately, given the agreed objectives.

The Council has structures, systems, processes and supporting arrangements in place to ensure that the key governance framework elements are complied with. The Council's programme of shared services and contract arrangements with other local authorities, has resulted in the Council's control environment being, to a degree, dependent on those organisations' systems, procedures and controls. However the Council's formal arrangement for the management of performance, finance, programmes and contracts contributes to the upholding of key elements of governance arrangements within these shared delivery vehicles.

The governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

Review of effectiveness

The London Borough of Hammersmith and Fulham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the chief officers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

How we ensure our arrangements are working

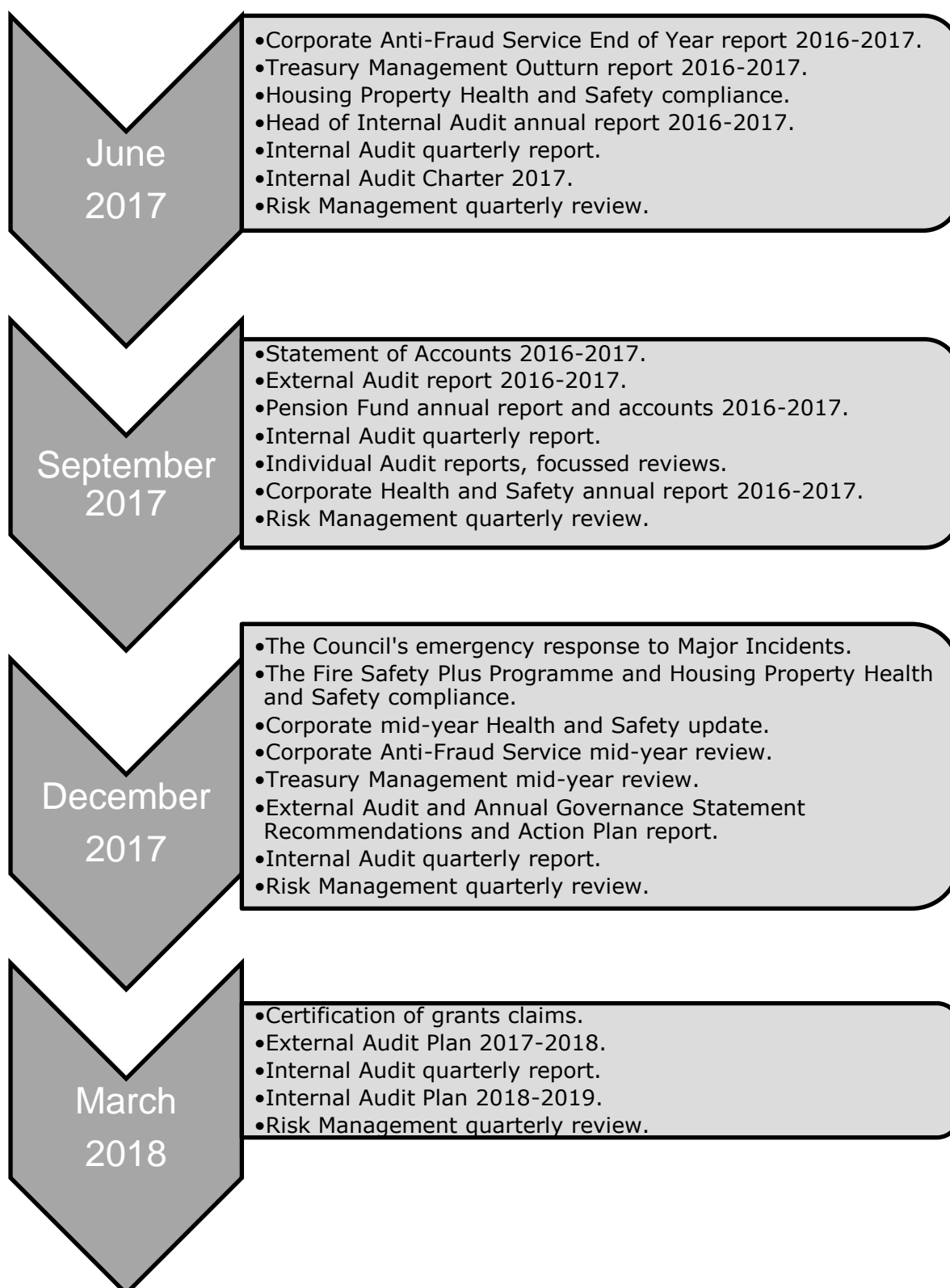
To monitor the effectiveness of the Council's corporate governance systems, a review is undertaken each year of the key elements of the governance framework, the basis of which is shown in the diagram below.

Sources of Assurances Required

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
<ul style="list-style-type: none"> •Constitution (incl. statutory officers, scheme of delegation, financial management and procurement standing orders) •Audit, Pensions and Standards Committee •Internal Audit Service and external audit •Independent external sources •Council, Cabinet and Policy and Accountability Committees •Medium Term Financial Strategy •Complaints system •HR policies and procedures •Whistleblowing and other countering fraud arrangements •Risk management framework •Performance management system •Codes of conduct •Anti Fraud Service 	<ul style="list-style-type: none"> •The role of Chief Officers •Delivery of Council's aims and objectives •Corporate Planning •Delivery, Financial, Service Improvement and Commissioning Plans •Officer codes of conduct •Performance appraisal •The role of the Chief Financial Officer •The role of the Head of Internal Audit •Roles and responsibilities of Members and Officers •Timely production of a Statement of accounts •Completion of External and Internal audit reports recommendations •Strategic Leadership Team - Review of Corporate Governance 	<ul style="list-style-type: none"> •Management of risk •Effectiveness of internal controls •Democratic engagement and public accountability •Budget and financial management arrangements •Standards of conduct and behaviour •Compliance with laws and regulations, internal policies and procedures •Action plans dealing with significant issues are approved, actioned and reported on •Local Government Ombudsman reports •Electoral Commission reports •Policy and Accountability reviews •Effectiveness reviews of Audit Pensions and Standards Committee and Scrutiny Committees, Internal Audit •Employee performance •Compliance with Procurement Regulations •Stakeholder engagement •Evaluation of benefits gained from investments and projects

Audit Pensions and Standards Committee Key Audit Business

The following diagram provides a summary of information on the areas that the Committee has considered:



Enhanced Assurance arrangements: the Council's management team, known as the Strategic Leadership Team, is chaired by the Chief Executive and its membership comprises of seven directors.

Each member of the Strategic Leadership Team has key areas of responsibility, but together they are jointly responsible (under the Chief Executive) for turning the strategic direction of the Council set by its elected councillors into operational policy. The Chief Executive has focused on assurance and highlighted the importance of embedding risk management throughout the Council, introducing monthly meetings focussed on assurance and conducting fundamental reviews of the Council's risks.

The Strategic Leadership Team is responsible for the forward-looking approach to delivering services and its transformation programme - ensuring the Council is best placed to meet the future needs of the community within the funding available. This involves working in partnership with public and voluntary sectors and ensuring service delivery changes to meet the demands of new legislation. A new Statutory Accountabilities Board, chaired by the Chief Executive, meets to ensure the Council discharges its duties with clear accountability for compliance standards and targets. Whilst Resources Management Board comprising Chief Executive, Strategic Director of Finance and Governance and Director of Corporate Services meets monthly to consider staffing expenditure.

The systems and processes that comprise the Council's governance arrangements have been evaluated for effectiveness for 2017/2018 and include:

Stakeholder Engagement and Business Planning: the Council and its partners have comprehensive arrangements for identifying and prioritising stakeholders' needs. The Council's Strategy, Annual Budget and Medium Term Financial Strategy were robustly developed through a series of challenge events, including review by the Policy and Accountability Committees. A business plan for 2017/18 was developed and this is the culmination of the Council's strategic delivery targets and actions. The plan is monitored regularly by the Strategic Leadership Team and this plan forms the basis for the production of Directorate / Service Plans, following similar reviews of their performance and identification and prioritisation of their statutory duties and stakeholder needs. The above arrangements are subject to ongoing, monthly and annual review and refinement by, amongst others, the Business Delivery Team, which consists of directors and service heads.

Performance: the Council has established arrangements for the management of its objectives and for ensuring that they represent the best use of resources and value for money. The arrangements see the Strategic Leadership Team receiving regular reports on progress against the business plan and a Corporate Health Check. These reports, together with associated management arrangements, enable management to review data on delivery progress against the agreed performance objectives of the Council. Directors also ensure that this is reviewed on a regular basis with Cabinet Members.

Resident Led Commissions: over the course of the past year the Council has set up and managed one expert-led and three resident-led commissions to help to inform policy and practice. The Rough Sleeping Commission has examined ways to tackle rough sleeping in the borough and presented its report to Cabinet in January 2018. The Disabled People's Commission has focussed on the delivery of a co-production framework for the development of council policies and services and reported to Cabinet in December 2017. The Biodiversity Commission was set up in January 2017 and presented its report to Cabinet in January 2018.

Risk Management: performance reporting and risk management arrangements, consistent with those established by the Strategic Leadership Team, are also required in Service areas. The Council acknowledges that risk management is a central part of strategic management. The Council's highest strategic risks (medium and long term), as identified by Services, are reported to the Audit Pensions and Standards Committee on a quarterly basis, including the status of any action taken to manage identified risks. Risk Management and Assurance review and reporting has been enhanced. Regular monthly Assurance review meetings are held by the Strategic Leadership Team where fundamental reviews of actions to mitigate risk and enhanced assurance reporting are undertaken.

People Strategy: our new people strategy aligns with the Council's vision to be the best by focusing on our ambition to have the best workforce in local government. To achieve this the Council is focusing on employee experience, development, coaching & leadership and organisational culture. The strategy seeks to invest in initiatives and practices which will grow and develop talent in the Council.

Control Systems and Environment: the Council's Internal Audit Service carries out a comprehensive programme of review activity consistent with the Audit Strategy and the Public Sector Internal Audit Standards. The work is based around the core risks faced by the Council and includes significant work on the main financial and information management systems, corporate programmes, partnerships and Shared Services assurance. Based upon the programme of work for 2017/18, the Director of Audit's opinion on the Council's control environment, governance arrangements and risk management arrangements is that they are satisfactory.

Information Management: the Council has continued to maintain its information governance arrangements and capabilities. Information governance policies and standards are in place, which, if complied with by officers and Members, provide the Strategic Leadership Team and Information Governance Board with the necessary assurance about the security of the Council's information assets and data handling procedures. The Senior

Information Risk Owner (SIRO) is ultimately accountable for the assurance of information security at the Council. A Caldicott Guardian is responsible for ensuring that health and social care information is managed appropriately, and that our annual Information Governance Toolkit submission meets the required levels of compliance. The General Data Protection Regulation (GDPR) readiness project board is engaged with Caldicott Guardians, Legal, Procurement, Risk Management, Audit and across departments and is implementing the requirements of new GDPR legislation for May 2018. The Information team, as part of its day to day role, continues to monitor risks to information assets and manage the Council's overall approach to information governance in order to ensure that information management and security standards within the Council are maintained to a high standard.

Director and Functional Assurance: directors have completed statements detailing their confidence in arrangements for managing their recognised core risk areas, which have been subject to independent review. This reflects the Directors' responsibilities for both the management of risk and the effectiveness of controls.

Directors with functional responsibility for core risk areas were also required to review and report independently on the effectiveness of the core management systems in each Service. The statements received in this regard indicated that overall the management systems were viewed as effective or very effective. Functional assurance can be demonstrated by our Adult Social Care Services approach to governance through examples of Director-led Boards for Budget Management, Performance, Quality Assurance, Recruitment and Staffing and regular Independently chaired quarterly meetings of the Adults Safeguarding Board.

Partnership Governance Arrangements: an important part of the Council's arrangements for delivering services, programmes and projects is through working in partnership but at all times maintaining sovereignty of all decisions. In some cases, working in partnership means collaborating with other Councils under Shared Services arrangements. Responsibility for monitoring the effectiveness of such partnerships in which the Council is involved now rests with the relevant Service through Section 113 agreements permissible under the Local Government Act. Section 113 allows a local authority to enter into an agreement with another authority to place its officers at the disposal of the other authority.

'Moving On' refers to a significant transformation and service redesign programme which has been delivered over the course of 2017/18. The programme has implemented sovereign delivery arrangements for the majority of services in Adult Social Care, Children's Services and Public Health, as well as Legal Services. The establishment of a Public Service Reform department has also created a single service to consolidate reform and transformational activity within an integrated service portfolio. These changes have simplified service arrangements to reduce complexity and duplication, and will facilitate the development of additional opportunities for strategic service reform to realise additional benefits. The opportunity to move away from shared delivery has been taken to facilitate greater sovereignty and control, and ensure that local priorities are central to service plans, and ensure that opportunities for local residents, services users and other stakeholders to influence and inform service arrangements are improved.

A number of services will continue to be shared with the Royal Borough of Kensington and Chelsea (RBKC) and/ or with Westminster City Council (WCC) examples include Treasury Management and Library Services.

Anti-Fraud and Corruption: the Council has established arrangements for managing the risk of fraud and corruption and conducting investigations into specific concerns. The Audit, Pensions and Standards Committee receives regular updates on the Council's anti-fraud and corruption arrangements, including how it is responding to emerging fraud risks.

External Audit: the Council's external auditors have statutory powers and responsibilities. They are required to review and report on the Council's Financial Statements, providing an opinion on the accounts, and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion). Recommendations arising from these reviews are reported to the Audit, Pensions and Standards Committee and implementation is monitored by internal audit. Published in 2017/18 (in respect of financial year 2016/17) were the External Audit Report 2016/17 which proposed unqualified opinions for the authority and pension fund financial statements and Value for Money conclusion, the Annual Audit Letter and the certification of grant claims and returns.

Local Code of Corporate Governance: the Council has in place a Local Code of Corporate Governance. The Code identifies the principles of good governance and transparency to which the Council subscribes and identifies the structures, systems and processes that the Council has established to ensure that it achieves good governance in practice. Key documents forming the governance framework are also documented.

Role of the Cabinet (Executive): there was an informed restructuring of the Council's governance arrangements during 2014, aimed at enhancing accountability and transparency as sought by the Administration. The arrangements saw the retention of the Leader and Cabinet model but with a scrutiny function operating through five Policy and Accountability Committees (PAC). PACs are committees of the Council rather than the Cabinet. They are aligned to the Cabinet Portfolios.

Role of the Policy and Accountability Committees (Scrutiny): at Hammersmith & Fulham, there were five main scrutiny committees during 2017/18:

- Children and Education Policy and Accountability Committee
- Community Safety, Environment and Residents Services Policy and Accountability Committee
- Economic Regeneration, Housing and the Arts Policy and Accountability Committee
- Finance & Delivery Policy & Accountability Committee
- Health, Adult Social Care and Social Inclusion Policy and Accountability Committee.

The Committees had cross cutting remits designed to reflect the Council's key priorities and objectives. They each comprised five elected non-executive Members. Committees were also able to co-opt members who had a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees were usually non-voting although the parent governor and diocesan representatives on the Education and Children's Services PAC are entitled to vote on education matters.

Each Committee received the list of Key Decisions (a rolling list of key decisions which the Cabinet planned to take in the coming months) at every meeting, which assists in the development of work programmes and the identification of forthcoming key executive decisions deserving closer scrutiny and input.

Policy and Accountability Committees (PACs) also had a wider role in policy development, originating topics of interest. The PACs were established as part of the Council's commitment to public engagement and working with residents in developing policy and strengthening the Council's decision-making process. They work hand-in-hand with residents to shape the future of the borough. They feedback their views to the Cabinet and individual Cabinet Members, officers, external partners and service providers. A large number of non-executive Members participate in scrutinising Cabinet business, external organisations such as the NHS, the Police and other statutory bodies.

There is more information about scrutiny in Hammersmith & Fulham at www.lbhf.gov.uk/scrutiny

Role of the Chief Financial Officer: CIPFA guidance indicates that the Council's Chief Financial Officer (currently the Strategic Director of Finance and Governance) should contribute to the effective leadership and corporate management of the authority, supporting effective governance through the development of corporate governance arrangements and corporate decision-making, leading and promoting change programmes and leading the development of the medium term financial strategy and annual budgeting processes.

A review of the role of the Council's Chief Financial Officer by Internal Audit (March 2018) concluded that the objectives identified in the CIPFA Statement on the Role of the Chief Financial Officer were being achieved and that there were no issues in relation to the role. This is also consistent with the close working with the Chief Executive on major issues and complex initiatives over the year and often in difficult circumstances.

Role of the Monitoring Officer: the Council is required to appoint a Monitoring Officer who monitors and reviews the operation of the Constitution and ensures the aims and principles of the Constitution are achieved. The Chief Solicitor (Litigation and Social Care) is the Monitoring Officer and has been involved in preparing this statement. The Monitoring Officer advises on compliance with the Constitution and ensures that decision making is lawful and advises whether decisions of the Executive are within the agreed budget and policy framework. The Monitoring Officer has legal responsibility to look into matters of potential unlawfulness and has confirmed that there has not been the need to make a report concerning any proposal, decision or omission that would give rise to unlawfulness or maladministration. The Monitoring Officer is satisfied that the arrangements in place are working effectively, decisions have been made in accordance with the budget and policy framework and that no matters of significance have been omitted from this Statement.

As part of the senior management reorganisation which came into force in March 2018, the Council has created a sovereign Legal Service which is led by the Assistant Director Legal Services who has been the Council's Monitoring Officer since March 2017.

Role of the Audit Committee: the Council's Audit, Pensions and Standards Committee has a standing brief to review the effectiveness of the Authority's risk management arrangements, internal control environment and associated anti-fraud and corruption arrangements. The Committee does this through, amongst other things, overseeing the work of Internal Audit and External Audit.

A review of the effectiveness of the system of internal audit, conducted as a self- assessment, showed that the internal audit service is fully compliant with Public Sector Internal Audit Standards.

Significant governance issues

Matters reported in the 2016-17 Annual Governance Statement, with the exception of those related to the BT Managed Services Programme, Contract Management and the ongoing challenges associated with funding reductions, have been addressed during 2017-18 and are considered resolved.

Issues carried over from 2016-17

Funding reductions

Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Government funding reduced by £70m from April 2010 to March 2018. The 2018/19 funding reduction is £8.9m and a further £5.2m cut is forecast in 2019/20. As part of the provisional Local Government Finance Settlement the government announced that authorities can charge a social care precept of up to 3% (and a total of 6% by 2019/20). This would raise £1.65m for Hammersmith and Fulham. A 3% social care precept assumption is included in Government projections of the Council's spending power. The Government also included an assumed further 3% increase in council tax in the Council's spending power projection, meaning a total council tax increase of 6% is assumed in the spending power projection. The Council's administration did not wish to apply any tax increase to residents, so it does not form part of the 2018/19 budget.

BT Managed Services

The managed services contract with BT will not be extended beyond its end date of May 2019. Following a rigorous process of review, the Hampshire Partnership has been selected as the preferred option to replace BT. The Hampshire Partnership offers a tried and tested integrated HR and Finance solution currently serving Hampshire County Council, Hampshire Constabulary, Hampshire Fire and Rescue Services and Oxfordshire County Council. Operating currently across four large public-sector organisations including over 700 local authority maintained schools, the partnership achieves significant strategic benefits from its size and scale by sharing resources, costs and capacity. All partners are engaged in taking forward the strategic governance and oversight of the partnership through their membership of either the Strategic Direction Board or the Operational Forum.

We propose over the coming year to take further steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Contract Management

The Council has reviewed its approach to the commissioning, procurement and management of service contracts, informed by service audits. Service data has been updated to ensure accurate identification of contract managers for each contract, together with the development of more rigorous corporate contract management guidance. This has been provided to contract managers to support other improvements in practice. Additional arrangements have been implemented corporately as part of the Moving On programme, including the introduction of the Public Service Reform department. These changes have simplified commissioning and procurement arrangements across many service areas to enable consistent practice, and compliance with corporate service standards. These changes will also enable additional opportunities for contract efficiencies to be realised moving forward.

The Commercial Management Initiative programme (CMI) has been established to deliver a review of contract reform activity over the next twelve months. This programme will secure additional value for money from a number of key contracts held by the council and will provide additional recommendations to shape corporate commissioning and procurement systems and assurance mechanisms through a further phase of work in 2018/9. The programme will develop the way we engage with markets and suppliers to deliver services to the end users in a more effective way. The delivery of a more integrated corporate approach will ensure that departments will be able to more effectively manage their services and suppliers within a framework of standards managed corporately through the Public Services Reform Directorate. To further develop commercial management arrangements across the Council the programme will also assess technical quality assurance arrangements such as Commissioning oversight boards, and workforce development standards.

Significant issues arising during 2017-18

Health and Safety, compliance with statutory inspections

An issue arose during the period following greater scrutiny of compliance with health and safety regulations. This found that the statutory inspections of corporate property maintained by Amey, the facilities management provider, was unacceptably low. This was reported by the Council's Corporate health and safety team to the Audit, Pensions and Standards Committee in September and December 2017. A recovery plan was agreed which sees the Council's Corporate Property team directly overseeing the management of statutory inspections of 31 of its buildings on an interim basis. Contractual discussions between the Council, the facilities management provider and the Link (contract management providers undertaken by Royal Borough of Kensington & Chelsea for that council and Westminster City Council) are ongoing. Additional assurance is provided through an independently commissioned piece of work using an external consultant to review the remaining portfolio across all areas of health and safety compliance.

Over the last 12 months, the Regeneration, Planning and Housing Directorate has fundamentally reviewed how it delivers health and safety compliance for HRA properties. Contracts are in place to deliver all statutory inspections, which report performance regularly to a departmental Senior Management Team. In 2017, a number of detailed assessments on specific activities were undertaken, for example an Asbestos Health Check.

This audited how statutory duties and inspections are being discharged. This produced an action plan for areas that will be further developed in 2018/19.

The Regeneration, Planning and Housing Directorate has introduced a new compliance management system called Geometra which holds all compliance data in one central place. This has reporting functionality enabling access to real-time data to provide an overview of performance. The Directorate has strengthened its approach to duty holders, under the health and safety regulations, which in turn has promoted a pro-active contractor management regime with clear accountability for compliance standards and targets.

Conclusion on the review

As a result of review of effectiveness as detailed above we are satisfied that the Council's arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A satisfactory level of Assurance has been achieved following the conclusion of the Review. The areas already addressed from the previous year and those to be specifically addressed for 2017/18 with new actions planned are outlined above.

In the context of further reductions in government funding, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for the community. It will do this by engaging with residents and stakeholders, and through demonstrating the values of good governance through upholding high standards of conduct and behaviour. Further to this, proactive risk management arrangements have been enhanced to support the delivery of the council's key objectives.

Signed:

Leader of the Council, Councillor Stephen Cowan

Signed:

Chief Executive, Kim Dero

Date:

On behalf of the London Borough of Hammersmith and Fulham

GLOSSARY OF TERMS

ACCOUNTING PERIOD

The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1 April to 31 March.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting policies define the process whereby transactions and other events are reflected in financial statements.

ACCOUNTING STANDARDS

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practice.

ACCRUALS BASIS

Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

ACQUISITIONS

The Council spends funds from the capital programme to buy assets such as land and buildings.

ACTUARIAL VALUATION

The Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates every three years.

AGENCY SERVICES

Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

AMORTISATION

The equivalent of depreciation for intangible assets.

APPROPRIATION

The transfer of ownership of an asset, from one Service Area to another at an agreed (usually market or outstanding debt) value.

ASSET REGISTER

A record of Council assets including land and buildings, housing, infrastructure, vehicles equipment etc. This is maintained for the purpose of calculating capital charges that are made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals, revaluations and depreciation.

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

BALANCES

The amount of money left over at the end of the financial year after allowing for all expenditure and income that has taken place. These are also known as financial reserves. They comprise the General Fund balance, the Collection Fund balance, the Housing Revenue Account balance and the Education Establishment Account balance.

BUDGET

A forecast of the Council's planned expenditure and income, either over a set period or for a specific project.

CAPITAL ADJUSTMENT ACCOUNT

See note 3c in the Core Financial Statements for details.

CAPITAL EXPENDITURE

Expenditure on the acquisition or creation of Council assets such as houses, offices, schools and roads or expenditure that adds to and does not merely maintain the value of an existing asset.

CAPITAL FINANCING

Capital financing is the process which occurs after capital expenditure has been incurred. There are a number of different sources of capital funding such as government capital / revenue grants, non-government grants, contributions from private developers, capital receipts and unsupported borrowing. Various funding sources are applied to capital spend to ensure that a project is fully financed from approved finance sources.

CAPITAL FINANCING REQUIREMENT (CFR)

The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION

Costs are capitalised to the extent that they create or improve any property, plant and equipment with a useful economic life greater than one year.

CAPITAL RECEIPTS

Proceeds from the sale of capital assets (e.g. land, buildings and equipment). These receipts are used to pay for additional capital expenditure.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

COLLECTION FUND

The Collection Fund is a separate account kept by every billing authority into which Council Tax and Business rates are paid.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONTINGENT ASSET

A potential asset that is uncertain because it depends on the outcome of a future event.

CONTINGENT LIABILITY

A potential liability that is uncertain because it depends on the outcome of a future event.

CREDITOR

An individual or body to which the Council owes money at the Balance Sheet date.

CURRENT SERVICE COST

The increase in the present value of pension liabilities expected to arise from employee service in the current period.

DEBTOR

An individual or body that owes money to the Council at the Balance Sheet date.

DEFERRED CREDITS

This is the term applied to deferred capital receipts and represents capital income still to be received. These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years. The balance is reduced by the amount repayable in any financial year.

DEFERRED LIABILITIES

An amount owed by the Council that will be repaid over a significant period of time. An example of this is outstanding finance lease obligations.

DEFINED BENEFIT PENSION SCHEME

A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and either final salary or average earnings.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.

EARMARKED RESERVE

See Summary of Reserves at the end of the Glossary.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue. Events arising after the Balance Sheet date should be reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

FAIR VALUE

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction.

FINANCE LEASE

Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

See Summary of Reserves at the end of the Glossary.

FINANCIAL INSTRUMENTS

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

GENERAL FUND

The council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE

The total cost of providing the Council's services before deducting income from government grants, fees and charges etc.

HISTORICAL COST

The amount originally paid for a fixed asset.

HOUSING REVENUE ACCOUNT

A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

IAS19

This International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

IMPAIRMENT LOSS

A loss arising from an event that significantly reduces an asset's value. An example is physical damage or a fall in market value.

INFRASTRUCTURE ASSETS

Property, plant and equipment that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets highways and footpaths.

INTANGIBLE ASSET

Long term assets that do not have physical substance but are identified and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities have been required to produce full accounts using IFRS from 1 April 2010.

INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

LEVIES

Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount that the Council must charge to the CIES each year and set aside as a provision for the repayment of external loans and meeting other credit liabilities.

NON-DOMESTIC RATES (NDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and shared between central and local government. The rates collected within Hammersmith and Fulham are shared as follows: Department for Communities and Local Government (50%), The London Borough of Hammersmith and Fulham (30%) and the Greater London Authority (20%).

NET BOOK VALUE

The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

NET REALISABLE VALUE

The open market value of the asset less the expenses to be incurred in realising the asset.

OPERATIONAL ASSETS

Property, plant and equipment held and occupied, used or consumed by the Council in the direct delivery of services.

OUTTURN

Actual income and expenditure in a financial year.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

PRIVATE FINANCE INITIATIVE (PFI)

Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since 1 April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the DCLG; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects. Changes introduced in 2013 mean an authority can retain an RTB receipt in its entirety when it can be demonstrated that it will be reinvested in a replacement home (known as the 1-4-1 scheme).

PRECEPT

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own council tax in the same way as a London Borough. Each Billing authority then collects the tax for them.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

PROVISIONS

A provision is an amount set aside in the accounts for liabilities anticipated in the future which cannot always be accurately quantified. IAS37 defines a provision as a present obligation as the result of a past event; where it is probable that the transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of that obligation.

PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA)

The PSAA is responsible for the appointment of local government external auditors and will continue in this role for the 2018/19 audit of accounts.

PUBLIC WORKS LOAN BOARD (PWLB)

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

RELATED PARTIES

Related Parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior officers.

RESERVES

See note 3a and 3c in the Core Financial Statements for details.

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

The use of revenue monies to pay for capital expenditure – also known as Direct Revenue Financing (DRF).

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, Revenue Support Grant, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

REVENUE SUPPORT GRANT (RSG)

The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NNDR pool and Council Tax. The Revenue Support Grant is distributed as part of the Formula Grant.

RIGHT TO BUY

The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the DCLG under pooling arrangements.

STOCKS

The amount of unused or unconsumed stocks held in expectation of future use.

SUPPORTED CAPITAL EXPENDITURE

This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

USEFUL LIFE

The period over which the Council will benefit from the use of a fixed asset.

WRITE-OFFS

Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.